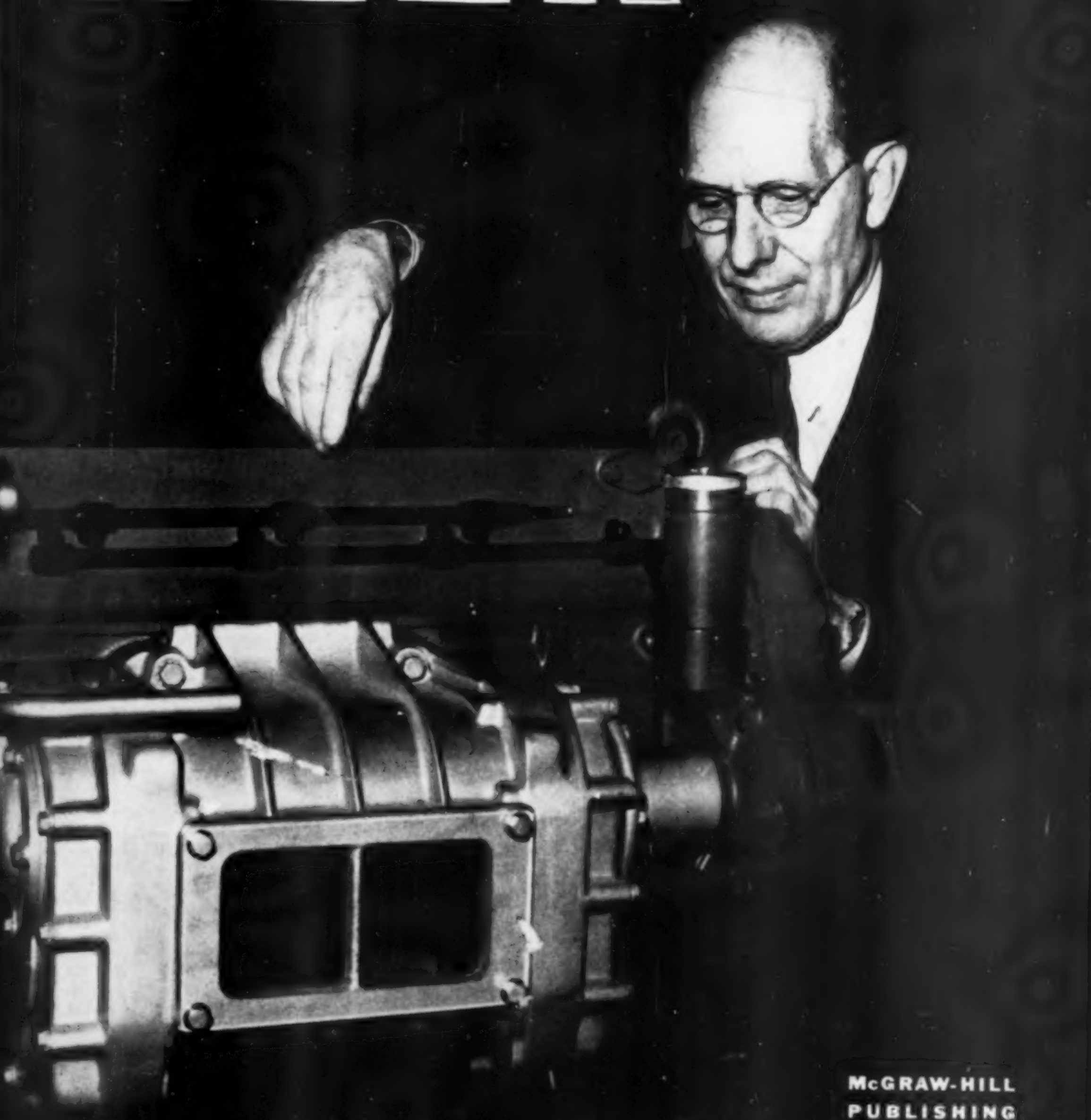
JAN. 29
1938

BUSINESS WEEK



DIESEL AND KETTERING — Research brings another important industrial development as General Motors announces a broad program of expansion in the diesel power field

McGRAW-HILL PUBLISHING COMPANY, INC.

NEW BUSINESS

In an attempt to improve the quality of California crops, University of California botanists plan to explore South America's Andes Mountains next June in the hope of finding rugged plants to be married to local species. Air express will be used to transport a steady stream of eligible seeds, cuttings, bulbs, and plants.

Symbolic of Liberty Mutual's pioneering for safety is the safety record achieved in the erection of the new Liberty Insurance Co. building, 175 Berkeley St., Boston, which opened its doors for business this month. During the 12 months in which hundreds of men worked high above surrounding pavements, there was not a single fatality or major injury.

At Cheektowaga, on the Niagara frontier, Spencer Lens Co., Buffalo, scientific instrument subsidiary of American Optical Co., plans to begin construction of the first unit of its plant expansion program within the next six months. Employment of an additional 100 men during the past year, bringing total employees to 450, is practically forcing the move.

Koppers Co., Pittsburgh, announces the acquisition of exclusive manufacturing and sales rights to the line of valves and other waterworks and sewage equipment formerly produced by Michigan Valve & Foundry Division of Timken-Detroit Axle Co. Production will not be interrupted; it will be added to the schedule of Koppers Co.'s Western Gas Division, Fort Wayne, Ind.

Pfaudler Co., Rochester, N. Y. has just completed a $2,000,000 factory expansion program which doubles the capacity of its Rochester plant. Program covered new factory buildings, modernization of old plant, and installation of all the gas furnaces, cranes, dust control equipment, and welding appliances essential to the economical manufacture of large glass-lined steel tanks.

Two excellent additions to the business library: "Personnel and Labor Relations," by Dale Yoder, published by Prentice-Hall, Inc., 70 Fifth Ave., New York, $5.35; "British Experiments in Public Ownership and Control," by Terence H. O'Brien, published by W. W. Norton & Co., 70 Fifth Ave., New York, $3.

Five excellent examples of business literature: (1) "In Black and White—Facts Concerning Industrial Advantages in Massachusetts," published by Massachusetts Development and Industrial Commission in cooperation with Associated Industries of Massachusetts, 950 Park Sq. Bldg., Boston; (2) "A Rational Approach to an Emotional Problem," by Paul G. Hoffman, president, Automotive Safety Foundation, 366 Madison Ave., New York; (3) "Foundries Around the World," by W. F. Piper, vice-president, Beardsley & Piper Co., 2541 N. Keeler Ave., Chicago; (4) "Natural Laws Applied to Production," published by Mathews Conveyor Co., Elwood City, Pa.; (5) "George Westinghouse Commemoration," published by American Society of Mechanical Engineers and distributed by Westinghouse Electric & Mfg. Co., East Pittsburgh.

On Feb. 1, The San Francisco Bank will begin issuing "Certificates of Membership" in its Treasure Island Club. Idea is like a Christmas Savings Club, object in this case being the building through periodical deposits of a fund for enjoying the Golden Gate International Exposition which will open on Treasure Island one year later, on Feb. 18, 1939.

Pittsburgh-Corning Corp., organized jointly last year by Pittsburgh Plate Glass Co. and Corning Glass Works for the production of the new "PC" glass building block, is opening its new plant at Port Alleghany, Pa. (Alleghany is not spelled like the mountain chain of similar name.) Glass block to be produced in the new plant will be for both interior and exterior use. The blocks have patterns on the inside of the glass surfaces, making the blocks translucent, but not transparent.

In Boston, as part of its advertising series on American background, Home Savings Bank advertised 70 dozen modern facsimiles of the antique clown and dog bank, at $1 each, to aid the cause of children's thrift. Orders for toy banks came from points as far removed as Eastport, Me., and St. Petersburg, Fla., and the bank's officers are still explaining that their supply is exhausted.

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WASHINGTON BULLETIN

WASHINGTON *(Business Week Bureau)* —**The President's renewed attack on prices has disturbed a sensitive situation in which business leaders went to the White House with a will to improve mutual understanding and confidence. There was a disposition to believe that the conferences had a wholesome effect, to the extent, at least, of arresting demoralization. Now there is bitter feeling that the President was only playing politics.**

But Plays Up to Lewis

John L. Lewis, though, got what he was after in his vigorous protest to the President against talk about prices and wages being too high. He didn't deal with them separately; but wages, of course, were his dominant interest. He was at the White House in company and in accord with big employers of labor, and such an alliance is bad business for the New Deal. Now the President has acted to break that alliance by siding with Lewis against wage reductions; and the industrial executives feel that they have been left in the lurch.

Rap at the A.F.L.

In playing up to Lewis, the President also has taken a slap at the building trades, backbone of the American Federation of Labor, by continuing to harp on their high wage rates. Staking his hopes on the housing program, which is the Administration's only specific measure for pulling business out of the slump, the President says that "in some building trades in some localities" the hourly wages may need cutting, but the annual pay should be maintained. This is the only exception the President makes from his general stand on wages.

Government May Spend Again

Pump-priming is the President's next step if wages are cut this winter and spring; and in his thinly veiled warning this week he has gone on record that industry will be to blame for forcing him to resort again to this temporary expedient and abandon his striving towards a balanced budget. A large body of official and unofficial opinion in Washington shares the view of Federal Reserve Board Governor Eccles that immediate resumption of government spending would, because properly timed, halt the downward spiral, with no bad reaction later.

Anti-Trust and NRA

For the long pull, both anti-trust law revision and a "cooperative" set-up, on NRA lines, are still in the picture. A renovated NRA appeals to the President because it gives him a pleasant sense of government control of business. But that's not all—now. NRA flopped, according to his notion, because business ran away with it. So, on Feb. 20, 1935, three months before the historic Schechter decision, in recommending extension of NRA for two years more, the President used words to Congress that have new significance now.

An Improved Blue Eagle

He said: "The fundamental principles of the anti-trust laws should be more adequately applied. Monopolies and private price-fixing within industries must not be allowed nor condoned. 'No monopoly should be private'. . . . We must continue to recognize that incorrigible minorities within an industry, or in the whole field of trade and industry, should not be allowed to write the rules of unfair play and compel all others to compete upon their low level. We must make certain that the privilege of cooperating to prevent unfair competition will not be transformed into a license to strangle fair competition under the apparent sanction of the law. Small enterprises especially should be given added protection against discrimination and oppression." The President is still on the same tack.

Small Business Man's Day

The "midget" business men, as they are affectionately referred to, will flock to Washington next week by the hundred. Every Congressman has "just the man" who could tell the President what it's all about and then go home and strut his stuff. It's swell politics for the Congressman and for the President. The White House was snowed under with demands for invitations. Everybody who could call Lt.-Col. Jimmy on the phone—and that's anybody—had a name. Unfortunately, the number is now so large that Roper and Draper of the Commerce Department have been appointed to ride herd on them.

TVA's Bargaining Gesture

Renewed dickering between the Commonwealth and Southern Corp. and TVA, prompted by Wendell L. Willkie's "last resort" offer to sell out, will drag to a slow death. Lilienthal's first violent reaction against the proposal was the Administration's genuine answer. It was quickly modified after a visit to the White House, where the beatings of the public pulse are measured and considered. Now Lilienthal is willing to listen and negotiate. If he could buy what he wants at a price he is willing to pay, some property might be transferred, but Willkie didn't propose to submit to dismemberment.

Driving Tax Bill Through

Administration leaders are railroading the tax bill through the House Ways and Means Committee, objections by witnesses at the hearings and by minority members being overridden with scant courtesy. Leaders indicate clearly that no changes in the subcommittee's plan will be tolerated. But a row on the House floor over taxes on closely held corporations is sure—and the Senate will write a new bill.

Want Federal Chain Tax

The Federal Trade Commission's order this week against A.&P., under the Robinson-Patman Act, naturally pleased the pressure groups that put across that law and the Miller-Tydings Resale Price Maintenance Act. These groups are launching a drive for a new Patman bill to impose prohibitive federal taxes on chain stores. Preliminary to introduction of the bill, thousands of druggists throughout the country are being circularized to bring their Congressmen to heel again.

Checks to Big Farmers

Bigness in farming is as unpopular on Capitol Hill as bigness in business is at the White House. Plenty of trouble threatens from over-production as a result of Congress' political fear of paying big checks for not growing wheat, corn, etc. This fear, reflected in the limitation of millionaires' and corporations' benefit checks to $1,000, was a campaign issue in 1936. But only by getting the big producers to reduce in proportion can total production be held down.

A. E. Morgan Steps on Corns

Arthur E. Morgan hasn't raised his prestige in Congress by his well-reasoned plea for a separation of the power issue from the Administration's regional conservation plan, which he favors so long as the new authorities work with, rather than supersede, existing federal and local agencies. As usual, the TVA chairman's good intentions tramp on many pet corns, including those of the public ownership crowd, the advocates of centralized government, and even the die-hards who oppose any approach to regional planning.

Stronger Trade Commission

Strategy failed in an attempt to rush the Federal Trade Commission bill through the Senate this week, but sponsors of the House version are confident of victory in the House-Senate conference committee. The House amendment gives the commission exclusive jurisdiction over advertising of food, drugs, and cosmetics. This controversial feature was added to the bill (previously passed by the Senate) to convert the trade commission into a consumer protective body by extending its reach over unfair methods of competition to include all deceptive acts and practices.

Panama Toll Exemption

By a deal with Sen. McAdoo, the President will not oppose legislation to exempt intercoastal vessels that meet naval auxiliary requirements from Panama Canal tolls, and authorizing subsidies for their operation. The California Senator had fought to exempt all intercoastal vessels.

Going After Chain Banking

The President's attack on holding companies, if the emphasis is put where it belongs—on "financial oligarchies"—is not just talk. It was prompted by a concerted move, already on foot, to break up chain banking. Herman Oliphant, the Treasury's general counsel, has been doing a lot of spade work. An interdepartmental committee, of which Chairman Eccles of the Federal Reserve Board is head, has been discussing a situation in which the Federal Deposit Insurance Corp. might be embarrassed if any important chain of banks should go overboard. Sen. Glass, the New Deal's severest critic on money matters, has been on the inside of discussions preliminary to drafting legislation.

Size of Naval Business

Armament building is popularly regarded as a big stimulant to business. In times like these steel makers are glad to get the orders. Actually, however, the navy's business is small potatoes. Capacity production of finished steel is about 50,000,000 tons a year. The naval program so far scheduled and projected will, it is estimated, call for about 400,000 tons, exclusive of armor plate, a minor item produced by three mills.

New England Power Control

Like the King of France who marched up the hill only to march down again, the New England governors marched on Washington to force a compromise on the Connecticut and Merrimack River flood control compacts—and marched back without the compromise. The Administration avoided any concession on power control—the real issue—by springing a proposal to assume all construction costs on reservoirs where power is a possibility—and the power, of course, would belong to the federal government.

Roosevelt Reaches Out

Government reorganization is jammed up in Congress but Roosevelt is quietly working towards centralization of authority. Two independent posts occupied by officials who irked the New Deal considerably now are vacant. No successors will be named to J. R. McCarl, comptroller-general whose 15-year term expired in '36, and to J. F. T. O'Connor, who recently resigned as comptroller of the currency. Subordinates will function as the "acting" heads until the showdown on the President's plans for reorganization. O'Connor's bank examining job will probably be taken over by the Federal Deposit Insurance Corp. but Congress is hard against abolition of the function McCarl performed—an independent audit of government expenditures.

Navy Defends Steel Prices

Roosevelt's *alma mater*, the Navy Department, doesn't agree with him about steel prices. At his direction, the navy went into the situation at length, and it reports that present prices are justified. The investigation assumed, however, that prices should cover costs, an assumption that Roosevelt rejects as invalid when business is slack.

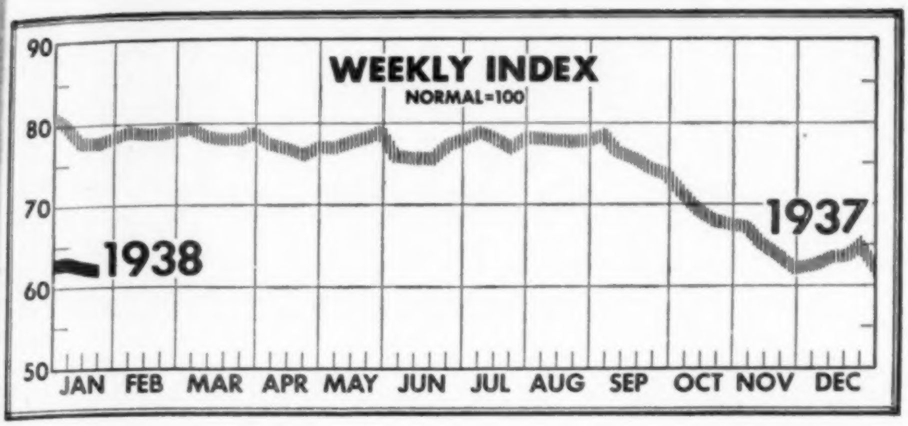
Seafood Squawk on Wallace

Aided by the Bureau of Fisheries in Sec. Roper's department, the fishing industry is actively combating alleged discrimination against seafood by Sec. Wallace's department. The Department of Agriculture is charged with promoting the economic aggrandizement of the farm to the exclusion of the sea as a source of food supply, carrying this to the point of utilizing the Food & Drug Administration to prejudice the public against marine products. The Federal Surplus Commodities Corp. won't buy canned seafood for relief distribution. Sen. Pat Harrison will push legislation to put it on the menu.

States Fight Highway Cut

State highway officials joined Congress this week in kicking against the pricks of Roosevelt's economy. Their story is that highway expenditures are 80-85% labor, highway labor is 85-90% from relief rolls, the relief rolls are still heavy, and the country needs roads. Administration leaders may force a compromise but both Senate and House committees are ready now to knock down the President's proposal to cut road building in half.

BUSINESS WEEK'S INDEX OF BUSINESS ACTIVITY



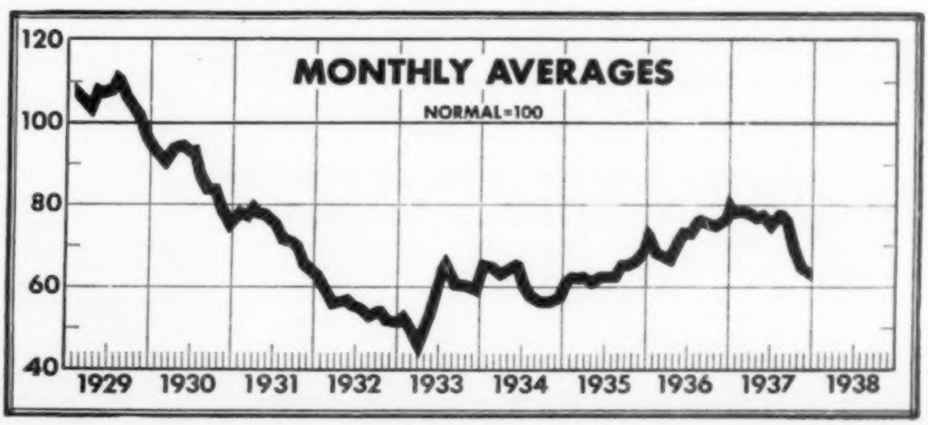
The Figures

Latest Week	*62.8
Preceding Week	†63.1
Month Ago	66.1
Year Ago	78.5
Average 1933–37	67.4

	Latest Week	Preceding Week	Month Ago	Year Ago	Average 1933-37
PRODUCTION					
★Steel Ingot Operation (% of capacity)	32.7	29.8	19.2	77.9	45.7
★Building Contracts (F. W. Dodge, 4-week daily average in thousands)	$8,589	$8,033	$8,500	$8,860	$6,610
Engineering Construction Awards (*Eng. News-Rec.*, 4-wk. daily av. in thousands)	$8,269	†$8,383	$6,841	$7,525	$6,606
★Bituminous Coal (daily average, 1,000 tons)	1,233	†1,085	1,477	1,731	1,362
★Electric Power (million kw.-hr.)	2,109	2,115	2,085	2,257	1,820
TRADE					
Total Carloadings (daily average, 1,000 cars)	97	92	101	116	98
★Miscellaneous and L.C.L. Carloadings (daily average, 1,000 cars)	59	58	61	72	61
★Check Payments (outside N. Y. City, millions)	$4,127	†$3,823	$4,974	$4,819	$3,683
★Money in Circulation (Wednesday series, millions)	$6,346	$6,395	$6,681	$6,330	$5,619
PRICES (Average for the week)					
Wheat (No. 2, hard winter, Kansas City, bu.)	$1.04	$1.05	$.96	$1.36	$.95
Cotton (middling, New York, lb.)	8.58¢	8.61¢	8.40¢	13.03¢	11.08¢
Iron and Steel (*Steel*, composite, ton)	$38.97	$38.97	$38.90	$36.59	$32.37
Copper (electrolytic, Connecticut Valley basis, lb.)	10.250¢	10.781¢	10.125¢	13.000¢	8.910¢
Moody's Spot Commodity Price Index (Dec. 31, 1931=100)	151.1	151.8	150.1	206.6	149.4
FINANCE					
Bond Yields (Standard Statistics, average 45 bonds)	6.03%	5.86%	5.77%	4.14%	4.87%
Call Loans, Renewal Rate, N. Y. Stock Exchange (daily average)	1.00%	1.00%	1.00%	1.00%	.95%
Prime Commercial Paper, 4-6 Months, N. Y. City (prevailing rate)	1.00%	1.00%	1.00%	.75%	1.03%
Business Failures (Dun and Bradstreet, number)	338	265	209	163	337
BANKING (Millions of dollars)					
Total Federal Reserve Credit Outstanding (Wednesday series)	2,610	2,599	2,658	2,468	2,425
Excess Reserves, all member banks (Wednesday series)	1,370	1,390	1,007	2,130	1,746
Total Loans and Investments, reporting member banks	21,285	21,333	21,480	22,657	19,849
Commercial and Agricultural Loans, reporting member banks‡	4,438	4,501	4,617	#	#
Security Loans, reporting member banks‡	1,433	1,467	1,536	#	#
U. S. Gov't and Gov't Guaranteed Obligations Held, reporting member banks	9,273	9,228	9,177	10,491	#
Other Securities Held, reporting member banks	2,923	2,910	2,885	3,243	#

★Factor in *Business Week* Index. • Preliminary, Week Ended January 22. † Revised. ‡ New Series. # Not Available.

These monthly averages are merely simple averages of each month's weekly figures of *Business Week's* index of business activity presented in the chart at the top of the page. They enable readers to get a general view of the trend of business since 1929.



THE BUSINESS OUTLOOK

BUSINESS sentiment has had to contend with a number of adverse pieces of news this week, in the shape of court decisions and political announcements on the one side, and further evidence of the drastic nature of the autumn collapse in industry on the other. The renewed confidence which has appeared since the turn of the year has been shaken, and with it the business prospect; but there is still ground to take a more hopeful view. The underlying factors making for a gradual turn-around in the trend this winter and a pick-up in April and May are still operating. Their strength will be determined as the weeks go by. For the moment one must rely on the current indexes of business activity, and these are holding their gains from the year-end lows.

Steel Up

Steel activity may be called the No. 1 business index, for the promptness of its publication, the importance of the industry, and its sensitiveness as a reflector of general demand. Operations this week were lifted by another 10%, being scheduled at 32.7% of capacity in the fourth successive increase. No one expects the rise to continue at so steady a pace, but, regardless of intermediate reactions, higher levels are certain to be seen.

Inventories Down

Inventories held by many consuming industries are well below the swollen figures of six months ago, and some of these industries are ready to buy. It will only require the clearing up of the price-wage situation, one way or the other, to release a wave of buying which could easily carry far enough to lift operations to better than 50% at the spring peak. Tentatively, one can mark down February as probably the decisive month in this area.

Automobile Assemblies

Other business indexes are holding their own. Automobile assemblies last week were practically unchanged. They may go lower in February, but a rather sharp lift in the rate of operations in March and April would not be surprising if the spring selling season brings any kind of demand for cars at all. Electric power output last week was 6.6% below the same week in 1937, the decline in the preceding week having been precisely the same.

Heavy Construction Gains

Residential and non-residential building in the first half of January, as measured by contracts awarded, showed reductions of 25 to 50% when compared both with the second half of December and with the first half of January a year ago. Heavy construction, however, showed such a striking advance as to bring the total of construction contracts awarded well above the other two fortnightly periods. Public works and utility contracts (the latter mainly in the metropolitan area) made this difference.

Pick-up Prospects

On the whole, the January figures are showing a natural rebound from the year-end trough. It is perhaps fortunate that the rebound has not been so great as to threaten another drop. In the coming weeks one can look for a wearing off of the new confidence, and for a leveling off or renewed sinking in the indexes. February may be a month of doubts. This will be merely another natural movement in the short-term rhythm; it need not disturb one's expectation of a spring pick-up. As consumers pay off instalment debts, trade inventories are depleted, and heavy industries recommence necessary buying, one may expect at least a 5 or 10% better level of production in the spring than in the winter months.

Secondary Consequences

Evidence of the breadth and intensity of the 1937 recession was furnished by the Department of Labor announcement covering employment and payrolls in December. In approximate terms, factory employment in October was 2% below its peak; in each of the following months it dropped 6%. Factory payrolls in October were 5% below their peak; in November and again in December the loss was 10%. These sharp declines are inevitable accompaniments of the equally sharp decline in factory production. More news like this will appear—the observer should have steeled himself to its appearance. These are the secondary consequences of the primary collapse.

Primary Factors

It is a commonplace that long-range recovery will require cooperation of all the major factors in the economy—business, labor, the government. Despite the week's developments, constructive solutions are still practicable.

Lesson from the Courts

Two court decisions adverse to business have come down. The TVA has been upheld by the trial judges, and hopes that the Supreme Court's decision will be different are fading. The Wisconsin jury has convicted the oil companies and their executives under the Sherman Act; here perhaps there is more chance of an overturn on appeal. The lesson of both would seem to be that business must find its salvation in itself primarily, and in cooperation with the government secondarily, rather than in fighting the government in the courts.

Utility Solution

A growing number of lawyers is expecting the Electric Bond and Share case to be decided favorably to the government. If so the holding companies will register with the SEC, and a real test of government-business cooperation will be given. The action of the SEC in the American Water Works & Electric case leads one to believe that solutions can then be worked out. The main thing is to establish a truce, and then let fact and reason, rather than public or court debate, determine policy.

Railroads' Problem

Another test of cooperation is already here in the railroad field. One party at Washington believes in a thorough "wringing out" of capital structures; another opposes hasty action on the assumption that present abnormal revenue conditions will continue. Much will depend on whether weaker roads are tided over until better rates and, above all, heavier traffic can restore them to entire solvency.

Steel Test Crucial

The test in steel is crucial. The industry has declared it will not cut prices unless wages are cut. Labor leaders say they will fight to the limit any wage cut. The President wants prices cut and wages maintained. The cleavage is sharp, but there is no reason to despair of a solution yet. Much that is said for public consumption can be revised when negotiations begin. The situation looks bad, but hurdles as high have been crossed before.

These Plant Modifications Save $2,500 Annually

WALLACE and Company, candy manufacturer in Brooklyn, New York, decided that some of its equipment was obsolete and was costing enough extra to pay for modern machines. The company decided to discontinue two steam-driven generators and to purchase power from the Consolidated Edison Company. Old direct-current motors and control were replaced by new alternating-current equipment—a change that eliminated much of the line shafting in the plant and reduced the connected horsepower materially. Direct annual savings approximate $2,500, and in addition there were savings made by purchasing power.

This is but one of a large number of cases where wise changes have paid good returns. And the procedure here was the usual one—investigating, learning the facts, checking carefully with competent engineers, then ACTING promptly and confidently.

If you hesitated to make changes when you last surveyed your plant, remember that the advances made since that investigation may make changes unmistakably profitable now. A careful review now may also disclose ways of making your competitive position stronger, and methods of handling profitably a fluctuating volume of business.

Perhaps you will decide to make such a survey and then to discuss your problem with General Electric application engineers. We offer you or your consulting engineers the benefits of our sixty years of successful service—experience which should be valuable to you in finding a profitable solution of your problems. Write to General Electric, Schenectady, New York.

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GENERAL ELECTRIC

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BUSINESS WEEK

JANUARY 29, 1938

Short Selling Restricted

Securities Commission imposes new controls on "shorts" after study of decline and without consulting exchanges. Wall Street questions conclusions.

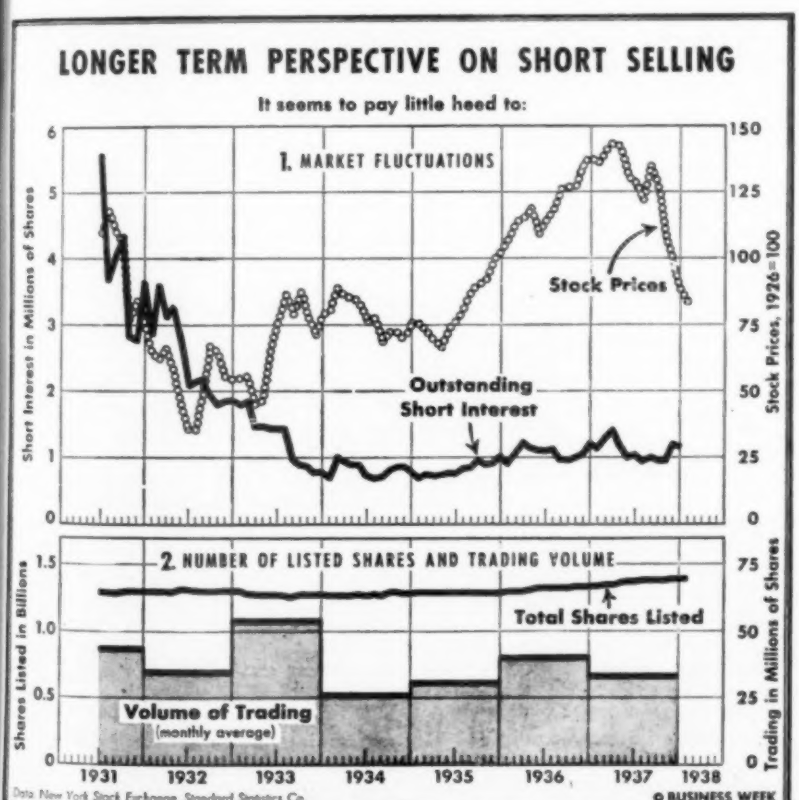
THE Securities & Exchange Commission this week pulled a fast one on the nation's stock exchanges. It made a move —as unexpected as Great Britain's departure from the gold standard back in 1931—to control short selling in a declining market. It was the first time that the commission had taken any dominant regulating step without first consulting leading exchanges.

Beginning Feb. 8, it will be a violation of the Securities Exchange Act of 1934 to sell stock short on a national securities exchange at a price at or below the last preceding sale. That means that to sell short, the seller must "get off" his stock at ⅛ above the last previous transaction in active shares.

That rule supersedes the rule of the New York Stock Exchange which now forbids the sale of short stock below the previous quotation. Whereas under the Stock Exchange provision a man could keep hammering a stock if it held, say, at 32, under the SEC provision the short seller will have to sell on the way up.

If he wants to sell 1,000 shares, and liquidates 100 at 32, the follow-up short sale must be at 32⅛. Of course, if there is an intervening transaction at 31⅞, then under the rule he could sell another 100 at 32 flat.

The SEC objective is to make it more difficult for short sellers to follow a market down. Indeed, in a declining market, it will be extremely tough to put out short lines. The short seller



SINCE JULY, 1933, the outstanding short interest on the New York Stock Exchange has moved virtually in a straight line, around 1,000,000 shares, seemingly unaffected by such important factors as stock prices, number of shares listed, or market volume. Noteworthy is the sharp drop from the high of 5,600,000 in May, 1931 when the Exchange first began collecting short interest statistics.

Short Selling Log

Action of the Securities & Exchange Commission in adopting a rule to restrict short selling on the country's stock exchanges is a major climax to a long series of steps taken by the New York Stock Exchange, Congress, and the SEC, itself, to regulate sellers of stocks that don't belong to them. The chronology:

May, 1931—The New York Stock Exchange began compiling short selling statistics, and shorts rushed to cover (see chart on this page).

Sept. 21, 1931—The exchange prohibited short selling because of the "unexpected international emergency"—Great Britain had left the gold standard.

Sept. 23, 1931—The exchange rescinded the emergency ruling.

Oct. 5, 1931—The exchange instructed brokers to label all sales of stocks "long" or "short," and it was tacitly understood that no short sales were to be permitted at a price below the last previous sale. This came under a broad construction of the exchange rule forbidding "demoralizing" a market.

May 25, 1932—The exchange suspended for one year a member for offering to sell stock at prices below previous quotations for the purpose of demoralizing the market, and this emphasized the "tacit understanding."

June 6, 1934—Congress passed the Securities Exchange Act of 1934, giving the SEC full power to regulate short selling.

May 27, 1935—Following suggestions from the SEC, the exchange adopted a rule prohibiting short sales at a price below the last previous quotation, and thus formalized the "tacit understanding."

Sept. 25, 1937—The exchange sent out a questionnaire to members on short selling in U. S. Steel common in an attempt to determine whether shorts demoralized the market.

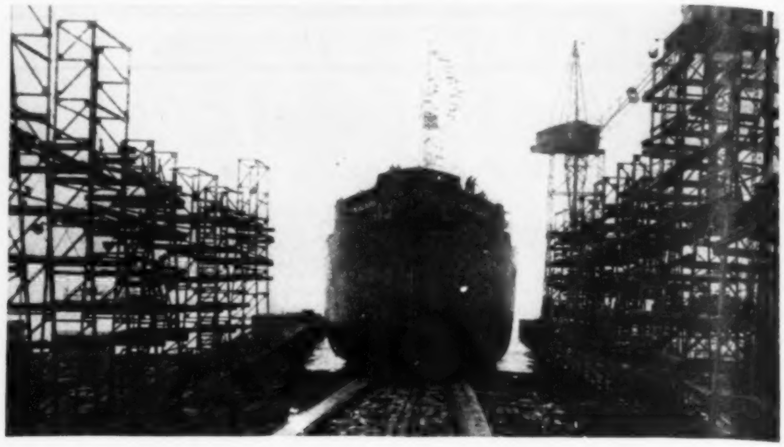
Oct. 9, 1937—A supplementary questionnaire was sent out to cover General Motors, New York Central, American Tel. & Tel., and Standard Oil (New Jersey) short sales.

Oct. 28, 1937—Results of the questionnaire were published *(BW—Nov.6'37,p14)*.

Nov. 12, 1937—SEC asked exchange members for trading data on 20 stocks for periods from Sept. 7 to 13 and Oct. 18 to 23.

Jan. 24, 1938—SEC promulgates rule prohibiting short sales at a price "at or below" the last previous sale.

A Gas Torch Cuts a Steel Plate, and a New Ship Is Launched



THE USUAL METHOD of launching a ship—not counting the champagne splashing—is to have a gang of men, swinging heavy sledges in unison, knock aside wooden blocks that have held the vessel in place. But last Saturday, at the Sparrows Point, Md., plant of Bethlehem Shipbuilding Corp., one worker with an oxy-acetylene torch stepped up to a single steel plate that moored a 13,000-ton ship. Swiftly the torch cut through the plate till it snapped, and down the ways rushed a new tanker.

The ship is the second of seven being built for Standard Oil of New Jersey. It will make 13 knots. In its 24 oil compartments will ride 4,468,000 gallons. Three later ships of the projected fleet will be of 16,300 tons, will make 18 knots.

As unusual as the method of launching are the quarters planned for the crew. Completely air-conditioned, they will be far more comfortable than those of most freighters, will feature ice water drinking taps especially welcome in the tropic service for which the ship is destined. By such methods the operators plan to meet the labor unrest that has plagued American shipping.

would, of necessity, have to catch the intermediate and brief rallies.

On a rising market, however, the short seller would be faced with no such problem. And it is probable that the SEC had this in mind when it promulgated its rule. Here, the idea would be to give the short seller wide scope in his operations, on the theory that short selling on an ascending scale would tend to iron out the crests.

Action of the SEC came after a study of the effect of short sales during the break in the market last fall. The commission pointed out that short operators concentrated in key issues, such as American Telephone & Telegraph, U. S. Steel common, Chrysler and General Motors, and that weakness in those issues—under the impact of short sales—was quickly imparted to the rest of the list.

Opinion in Wall St. was divided over whether the commission had correctly interpreted the figures. If, the argument runs, short selling is desirable to correct excesses on the upside, it is equally desirable in forcing stocks down to levels at which they will get wide support, thus getting the decline "over with."

But there was no argument with the SEC's statement that its new rule could not "affect the underlying economic causes of market movements." In other words, the SEC holds forth no Utopian results as the reward of this regulation. The rule is simply intended to "curb certain harmful uses of the short sale."

Specialists and odd-lot dealers (see page 48) will face difficulties in handling business under the new regulation. The specialists will find it hard to keep their books, and odd-lot houses may find that they are getting a good deal of unexpected short selling business. The rule does not apply to odd lot transactions, nor to transactions involving securities in transit.

A. & P. Loses

Brokerage provision of Patman act sent to courts by FTC decision against food chain.

IN THE BIGGEST CASE yet brought under the Robinson-Patman Law—that involving the Great Atlantic & Pacific Tea Co., whose alleged misconduct constituted the law's chief reason for being—the Federal Trade Commission this week returned a verdict of guilty and entered its customary cease-and-desist order. The original complaint against the country's biggest chain, charging it with violation of the brokerage provisions of the act, was issued one year ago. Testimony during extensive hearings indicated that when the R-P law was enacted in June, 1936, A.&P. changed its buying policies and ordered its field agencies to make all purchases on one of the three following bases:

(1) At a net price, reflecting a reduction from the general market price of the brokerage commission, usually 4% or 5%, previously paid the chain.

(2) To make "quantity discount" agreements providing for the monthly payment to the chain of an amount equal to the old brokerage.

(3) To conclude arrangements, if neither of the other two bases were acceptable, for placing brokerage payments in escrow.

Undisputed evidence indicated that as a result of the operation of these policies the buying offices of A.&P. in New Orleans, Rochester, and Baltimore alone had been able to effect an aggregate "saving" for the chain of $70,000 a month. Commission attorneys contended that this "saving" violated section 2(c) which forbids the acceptance of any payment "in lieu of brokerage". To this A.&P. replied that the price reductions reflected brokerage savings but were not "in lieu of brokerage", that application of section 2(c) had to be justified under the provision which forbids brokerage payments "except for services rendered". The chain pointed out that its crop and price reporting, its quality testing, and its sales and production advice to suppliers are services exceeding those of the average broker and thoroughly entitling it to payment of brokerage. It also argued that if the brokerage clause were not so interpreted it would be tantamount to a requirement that everyone must buy through brokers, and such a requirement, it maintained, is patently unconstitutional.

This critical question the commission has now kicked upstairs to the courts for final answer.

Treaties of Alliance

Far-reaching political implications of reciprocal trade agreement program are revealed in Hull proposal to switch trade to Britain at heavy cost to Germany.

THERE is beginning to be a sickening realization in the fascist capitals, and a flicker of new confidence in the great democratic states that something much more important than the trade involved —large as that is—is at stake in the negotiating of the Anglo-American trade agreement.

In the past, the world set its course according to political alliances arranged by the great powers. Today, the alliances are economic.

Significance of Program

It was not until the full scope of the Anglo-American negotiations came to light that more than a very few people comprehended how extensive the international political implications of the reciprocal trade program would be. In the public negotiations which will begin in Washington in March, the United States is negotiating with the largest single trading unit in the world—Great Britain — for a broader international trade program, and is, whether it is openly discussed or not, threatening further to curtail the business of one of the two countries placed on the foreign trade "black list" as a protest against its discriminatory foreign trade policies. That country is Germany.

As has been the case with other treaties which have been negotiated by Washington, the nation with which negotiations are being conducted is the major supplier of most of the items on which this country offers to make some bargaining concessions. But it is a striking fact that in the present list, Germany, next to Britain and the Empire, is the nation which supplied the United States with the largest volume of products on the list. This is on the basis of 1936 trade, the last year for which a complete analysis is available.

One-half from British Empire

We bought almost a quarter of a billion dollars worth of the goods on which we now offer to bargain concessions, not including those items on the free list, or the supplementary list issued by the State Department this week.

We bought slightly less than one-half of this total from Britain and her colonies. If imports from the self-governing dominions are added, more than one-half of the total came from the British Empire.

Outside the empire, however, Germany was the largest supplier, and on more than 100 items, Germany provided a greater share of our imports than any other country. It is true that imports of as many as half of these items were comparatively insignificant. It is also true that Germany is the leading supplier of a longer list of our individual imports than almost any other nation. But it remains a significant fact that the nation which is the nucleus for the self-sufficiency-at-any-price bloc, and the one which broke its most-favored-nation agreement with us and set out to do world business on a strict bilateral, barter basis stands to lose most from the Anglo-American accord.

Preliminary figures show that more than $12,000,000 worth of German exports to the United States may be adversely affected by the British accord, and that more than $90,000,000 of British and colonial business may profit accordingly. One shrewd German complained outspokenly that the United States was bargaining not a part of the market formerly supplied by its own manufacturers in return for a large British market, but that share of the American market which has previously been supplied by the Reich.

Though they are bitter about developments, candid Germans are the first to admit that they are largely to blame for the present plight.

Germans Terminate Agreement

When the Hull reciprocal trade program was still an untested project, official German trade representatives in this country are said to have reported to their government that it would not have the backing of the American public and probably would not be a success. On the basis of this advice, plus the confidence among both these representatives and the authorities in Berlin that the volume of German purchases here would force us to make allowances for the peculiar and critical economic conditions in the Reich, Berlin gave notice that it intended to terminate its most-favored-nation agreement with us. The thought was that we, because of our long trade history with Germany and the importance of that market for our farm products, would capitulate to Berlin and make a new agreement. Washington not only refused, but announced that Germany was discriminating against our goods and placed the Reich on our foreign trade "black list."

Out of that tactical blunder which has deprived Germany of the benefits of our various reciprocal trade accords, the most important of which will be the British agreement, has developed the present situation whereby Germany not only fails to receive the benefits through most-favored-nation treatment, which in the present case would be so important, but actually loses the business to keenly competitive neighbors.

Berlin officials themselves have estimated that on the basis of 1934 trade (the last full year's business before the first set of pacts was negotiated), between $1,500,000 and $2,000,000 worth of goods normally supplied by Germany was likely in the future to come from Belgium because of the tariff concessions granted by Washington.

An equal amount of business was threatened in the Swiss accord, but not more than $500,000 worth of products on which concessions were granted to the Netherlands were considered directly competitive with German items.

Accord Gave France Benefits

In the Swedish agreement, Germans figured they might lose up to $1,000,000 of American orders annually for special steels. In the Canadian pact, they lost almost no business because industries in the two countries are not competitive in more than a few lines. But France, as a result of the Franco-American accord, has a preferred bargaining position for from $5,000,000 to $6,000,000 of American business, most of which had been previously supplied from Germany.

What Germans are ready to admit now, and what advocates of freer trade as a means of stimulating world business recovery have discovered since analyzing the results of the reciprocal trade program is that its accomplishments are beginning to be significant, and that, in the British agreement, it is reaching the stage of effectively cramping the style of the non-conformists as well as boosting the barrier-leveling policy of the foreign trade liberals. The test of its effectiveness remains the fact that it still offers to all who are willing to make concessions to its aims the opportunity to share all of the benefits.

Heat and Vent Show

Oil burner and coal stoker men rejoice over air conditioning progress.

BACKED by the consciousness that the statistical position of their varied industry was probably more favorable than that of most industries at the turn of the year, manufacturers, engineers, distributors, and dealers converged on Grand Central Palace, New York, for the Fifth International Heating and Ventilating Exposition, Jan. 24-28. According to *Automatic Heat & Air Conditioning*, oil burner permits issued by 52 cities during 1937 had totalled 38,304, or 3,838 more than the 34,466 issued in 1936. December, 1937, permits showed 3,019, as against Decem-

ber, 1936, totals of 3,636—a lot smaller drop than that in many other businesses.

Naturally oil burner men were not wildly enthusiastic about gains registered in the automatic coal stoker business (stoker permits issued in 16 cities totalled 535 in December, 1937, as against 383 in December, 1936; 1937 total was 4,305 for the entire year, as compared with 1936's 3,360). But all joined hands in rejoicing that contracts for summer and year around air conditioning installations rose from 3,725 in 56 cities during 1936 to 4,221 in 46 cities in 1937, with 10 cities still to be heard from. Though total horsepower of contracts dropped in December, 125 contracts were awarded, against 121 in December, 1936.

Refinement rather than revolution marked the three hundred or more exhibits at the show. Air conditioning exhibits revealed the close attention being paid to economy in installation and operation. Room conditioners, for example, occupy considerably less space than formerly, and many need no more installing than a simple plug-in.

Wide World

THEY DON'T LOOK WORRIED—Col. William J. Donovan, left, chief defense counsel, and Charles Arnott, Socony-Vacuum executive, were two of the losers in the Madison anti-trust case. Reason why they don't look worried may be because penalties are not expected to be severe. The government was chiefly interested in establishing principles, and probably won't press for heavy fines.

U. S. Plans More Oil Prosecutions

Conviction of 16 companies and 30 officials at Madison, Wis., may be followed by similar cases elsewhere. Independent wholesalers applaud verdict.

CONVICTION of 16 major oil companies and 30 oil officials in the celebrated anti-trust trial at Madison, Wis., last week clears the government decks for similar operations in other territories. A jury of farmers and small business men found the defendants guilty of conspiracy to fix and increase gasoline prices throughout the Middle West (*BW—Nov20'37,p29*). The Department of Justice has been investigating oil marketing in the East and on the Pacific Coast. It now becomes a question which of these will "break" first.

The federal drive on the West Coast may take the form of reopening a 1931 consent decree case. At that time the companies agreed to disband a pool for buying surplus gasoline. The Federal Trade Commission probed charges that the companies had fallen from grace, and it submitted a report to the Department of Justice.

Companies a Bit Jumpy

In the East the D.J.'s gumshoe boys have been diligently winnowing company files and asking gimlet questions. Their work is further ahead than is generally supposed. All the big companies are a bit jumpy except New Jersey Standard. Legal pilots of the mother Rockefeller concern have tried to keep its market practices clear of suspicion.

It is expected that the Eastern battle will open with a federal grand jury investigation similar to that in the case tried at Madison.

A major care of government prosecutors is to arrange that the trial shall come before a sympathetic judge. While the judicial ideal, exemplified by those fat stone ladies on court houses, calls for evenly balanced scales, the practical gentlemen of the D.J. know that a barnacled reactionary on the bench can do things to a case.

At Madison the choice was a happy one. Nobody has suggested that the federal trial judge, Canadian-born Patrick T. Stone, leaned one way or the other. But he was appointed by President Roosevelt in 1933 and his philosophy is progressive. Attorney-General Cummings explained demurely that he picked Judge Stone's court because an uncrowded docket allowed a prompt trial.

An important item in Col. William J. Donovan's case for the defense at Madison was an appeal for help by Secretary of the Interior Ickes to C. E. Arnott, vice-president of Socony-Vacuum. Ickes' letter was written during the NRA.

"We wouldn't be in this courtroom today," said Col. Donovan somewhat plaintively, "if it had not been for that letter."

During his charge to the jury, Judge Stone said:

"Any good intentions of the defendants do not excuse them from responsibility for their acts . . . Much has been said in this case about the NRA. The objectives of the NRA code, however, do not justify illegal action, even though government officials knew of and acquiesced in defendants' actions. That is no excuse for illegal practices."

Defendants become liable to a maximum of a year in jail and a $5,000 fine. No jail sentences are probable. The case is certain to be appealed.

Defendants were convicted of buying "homeless" gasoline from independent refiners to keep it from injuring the market. Soon after indictments were returned, the companies dropped all semblance of concerted action. Independents have felt the withdrawal of this demand.

Independent Wholesalers Rejoice

Loudest in acclaim of the conviction are the independent wholesalers of gasoline. It was their National Oil Marketers Association which egged the D.J. into action. It charged that big company practices squeezed the wholesaler between a high price at his source of supply and a low margin to his customers.

Paul E. Hadlick, secretary of the organization, did a remarkable job by keeping the D.J. at work on this case in the face of demands for other anti-trust actions by more powerful political interests (*BW—Aug21'37, p32*). His vigilance covered 28 months and the terms of three assistant U.S. attorneys-general.

Up Against Used Cars

That's the key to the auto puzzle, which was discussed by Roosevelt with manufacturers and finance men. Stocks reach an all-time high.

A DETROIT wag, asked what is the matter with the automobile industry, replied: "The federal government keeps it so busy with investigations, hearings, and White House conferences that it doesn't have time to sell cars."

While he was thus humorously explaining the situation, last week another White House meeting was added to the list. If reports are correct, top-flight officials of big automobile and finance companies promised the President to place limitations on instalment selling methods, to restrict prevailing credit terms, and to re-examine high-pressure tactics which result in overselling cars and thus bringing about production slumps.

Some Say: "We Told You So"

Viewing the industry's current plight (inability to pare down huge stocks of new and used cars), a certain section of the automotive group is saying, "We told you so." Back when the industry began to sell new cars for $25 a month and to give 24 months or longer in which to pay, this group predicted the following effects: higher new car prices, larger financing charges for the car purchaser, an increase in the number of repossessed cars, public condemnation and government regulation of finance companies, and a sales shot in the arm which eventually would be succeeded by a sharp reaction.

In fulfillment of their predictions, they point to what has happened. An important low-price car maker saw its instalment selling jump in 12 months from 32% of the total to 64%, and the succeeding year climb to 70%. The average time allowed a customer to pay for his car rose to 18 months. It got so easy to sell new cars that it became harder to sell used cars. The difference in cash outlay and in monthly payments was so small that many car buyers who normally might be in the used car group became new car owners.

Whatever the reasons for the present dilemma, other than too easy credit terms, the motor car industry is chiefly interested now in solving the puzzle of getting sales off dead center. The key to that puzzle is two four-letter words—used cars. Until a reduction is made in stocks of used cars, new car sales will lag.

Underwood & Underwood

THEIR WORRY: USED CARS AND INSTALMENT TERMS—Shown above, after their White House conference last week, are the men who are reported to have promised the President to help put the brakes on automotive financing.
Left to right: Kent Keller, president of Chrysler Corp.; Ernest Kanzler, president of Universal Credit Corp.; Edsel Ford, president of Ford Motor Co.; John J. Shuman, president of General Motors Acceptance Corp.; Senator Prentiss Brown, of Michigan; B. E. Hutchinson, chairman of the finance committee of Chrysler; William Knudsen, president of General Motors Corp.; Henry Ittelson, president of Commercial Investment Trust, and A. D. Duncan, president of Commercial Credit Co.

At present dealers have standing in show rooms and out in snowy parking lots almost one million used cars. Some 700,000 used passenger cars and 150,000 used trucks are in the possession of new passenger car and truck dealers. An indeterminate but substantial number are the frozen assets of used car dealers. The total is at least 100,000 greater than at the time of the previous record high in February, 1930.

Repossessed Cars a Problem

The situation is complicated by the number of repossessed cars being thrown on the retail market by finance companies. Many of these cars are being shipped from large cities like Detroit and Chicago to small towns for sale, thus making tougher the selling job of local new car dealers. With a large share of their capital tied up in used cars, many new car dealers today won't put through a new car deal until the "trade-in" involved is disposed of for cash.

Just how did the industry get into this fix? Well, no two car makers will agree on all the details, but to understand the situation, one must know a bit about the used car market. Normally, used car sales fluctuate less violently than new car sales, the difference between the high and low months of the year being not more than 15%. The selling peaks and valleys tend to come later than those of new cars; the lag is usually about two months. The effects of "trade-ins" in connection with new car transactions are felt for as long as nine or ten months. That is, out of 50 cars taken in on new car deals in a month, the dealer probably doesn't get rid of the last one until nine months later.

Seasonal Factors Affect Sales

It is probably the relative stability of the used car market, due to its independence of style appeal, that accounts for the fact that the swing from the bottom to the top (and vice versa) of the cycle of cars in stock is long. Used car sales are affected by seasonal factors; they reach a peak along about June and then gradually are brought down to the lowest point of the year at the time new car models are introduced in the fall. But, from a long-range standpoint, it took from February, 1930, until March, 1933, for used car stocks to be shaken down from an all-time high to rock bottom. Since then they have risen, the beginning of each year finding them at a higher level than at the same time 12 months previous.

The used car business doesn't differ from any other business in that the carrying of larger stocks is desirable as the sales volume increases. As new car sales expanded through 1935, 1936, and 1937, used car sales grew

and dealers had more "trade-ins" to dispose of. But nobody thought anything about these larger stocks in view of the greatly enlarged volume of sales. However, in the period last summer when they usually shrink, they failed to decrease as sharply as they should have. Industrial workers, made cautious by layoffs and fewer working days per week, stopped buying cars; and they as a class form the biggest market for used cars.

To top off the dealers' troubles, the first rush of orders for 1938 new cars came from people who traded in 1936 and 1937 models at high values. That threw into the market used cars priced too high to appeal to buyers with decreasing incomes. Dealers were stuck then with a disproportionate share of cars which represented substantial cash investments, and at the same time found the market for such cars going to pieces.

Stress Used Car Sales

Factories and dealers feel a certain sense of helplessness about straightening out the used car tangle, many believing that nothing can be done until spring. Almost all current sales efforts, however, are being directed toward used cars rather than new cars. Dealers point to the present jam as the direct result of fall announcements and the trading in of cars during October and November which cannot be sold until March and April. Some are not so sure that they aren't now caught in the whirlwind stirred up by three straight years of fall introductions, and hence they advocate a return to January announcements. People close to the industry dismiss as impractical the suggestion that the federal government spend several hundred millions to buy up old cars and scrap them.

Most dealers probably would get high blood pressure at the mere thought of the plan proposed by one expert to solve the used car problem. The plan is based on the reduction of dealers' discounts on new cars from the present range of 21%-30% to 15%. The theory is that dealers can operate at a reasonable profit on 15% and they now are using most of the discount above that figure to do "long" trading on old cars. Elimination of this wild trading would bring lower prices on new cars and on used cars, and sales of both new and used cars would be stimulated.

Used Cars Vital to Industry

Used cars have been reviled by new car dealers as the curse of the industry for the past 25 years, but actually they are the foundation upon which the industry is built. One observer who has made a close study of used cars has figured out that there are only nine million people in the United States with sufficient incomes to buy new cars. If these people drove their cars until they were worn out (the life of a car is about nine years), annual car production would be only a million units. If that business were divided among four or five manufacturers, the tooling costs on such a low volume would be so great that retail car prices would be sky high.

Oil and gas consumption would be only a fraction of what it is today, motor transportation for the masses wouldn't be possible, and the country's economy would have to be geared in part to a horse-and-buggy world.

In contrast with such a situation, most cars actually pass through the hands of three or four owners before being junked. Many more used cars are sold every year than new cars. Last year buyers partly paid for $3,420,000,000 of new cars with almost a billion dollars of used cars. The value of passenger cars in service on Jan. 1 is estimated at 7½ billion dollars, all of which is earmarked as part payment for future new cars. What other industry has such a solid basis for future sales?

Slash Pine for Rayon, Plastics

New sulphite pulp plant of Pacific Northwest interests at Fernandina, Fla., marks another significant southward trend of industry.

WHILE the southern pine belt jubilates over the invasion of its territory by kraft pulp and paper mills, there begins a second southward movement of equal importance. The rayon and plastics industries are turning to yellow pine.

Chemical research has at last solved the problem of producing suitable cellulose pulp for these materials from the South's fast-growing trees. It is said to be equal in quality to that made from cotton linters (the "whiskers" on cotton seed) or from spruce. Stripped of laboratory verbiage, this means that American women will wear dress fabrics whose yarn comes from yellow-pine fibers, that industry will draw on the same source for transparent wrapping, laminations for safety glass, automobile steering wheels, lacquers, and a host of molded plastic items.

Dr. Charles H. Herty demonstrated in his Savannah laboratory that bleached sulphite pulp with an 89% cellulose content could be made from southern slash pine. The recent opening of Container Corp.'s plant at Fernandina, Fla., honored Dr. Herty for his discoveries in the use of yellow pine (*BW—Jan 22'38,p39*). This mill makes pulp for paperboard boxes.

Within sight of Container Corp.'s new unit on Fernandina harbor, another plant is being erected. This is the $6,500,000 mill of Rayonier, Inc. It

Any Old Chimneys? A Vine Will Hold Them Up

FOUR years ago, reports *Power* magazine, cavalrymen at Fort Oglethrope, Ga. began to do their riding at a safe distance from the 125-ft. brick power-plant stack, for a 3-in. crack had appeared at its top and had worked down about 40 ft.

The engineer at the post, J. F. Masefield, waited in vain for a repair appropriation to come through, and in the meantime looked around for some kind of temporary repair. From a Florida engineer came the suggestion that he plant a Florida vine at the base of the chimney. Willing to try anything, Masefield planted three vines. One died, but the other two shot to the top of the stack within a year, encircled the crown, and actually began to pull the crack shut. Now, after four years, the vine is over three inches thick and only a small bit of the crack remains at the top of the stack. Which is lucky, because the repair appropriation still hasn't come through.

MARKETING ANGLES

Preliminary estimates of the Marketing Research Division of the Bureau of Foreign and Domestic Commerce put the dollar volume of retail trade in the U.S. at $40,388,000,000 for 1937, 6¼% over the 1936 figure, but 18% under the total for 1929. The fact that retail prices were all generally higher in 1937 indicates that the physical volume of goods sold offered less to crow about. All trade groups showed dollar volume gains, from 4% in the food and variety groups to 15% for jewelry stores.

* * *

Though book publishers' advertising is usually confined almost entirely to trade papers, and the daily and Sunday book pages of the newspaper, three publishing groups within the last month have taken to the air. Over New York's "class" station, WQXR, the Book-of-the-Month Club started a daily recorded program of classical music, with talks by book critics. Modern Age Books, Inc., publishers of inexpensive, paper-bound books, was on WABC with a quarter-hour period Saturday evenings, dramatizing scenes from its books. This week the liberal Co-op Book Club went on the air with its first major broadcast, over WHN, as a feature of the New York University Literary Forum.

* * *

The Institute of Distribution, Inc., has issued a pamphlet on "Regulating the General Merchant's Use of 'Free Goods' or 'Premiums'," a survey taken in the fall of 1937, by Robert E. Bauer, of the Institute's legal department, covering all existing federal and state regulations involving free goods and premiums.

The Federal Trade Commission has issued a complaint against the United Fence Manufacturers' Association in Burlington, N. J., and its members, engaged in the production of snow fences, charging them with fixing prices in violation of not only the Robinson-Patman Act, but the Federal Trade Commission Act as well. The respondents are accused of having maintained a system of uniform delivered prices, eliminating price competition and effectuating a near-monopoly in their industry.

* * *

National Distillers, after riding along for two days with its price-contracts under the New York Feld-Crawford Law voided because of a retailers' boycott of its brands, climbed back into harness after dealers indulged in a free-for-all price war, took up its contracts again, announced it had reached "a complete understanding" with its retailers.

* * *

RCA-Victor is launching a court drive to determine the rights of the phonograph record manufacturer as they apply to the broadcasting of records over the air. The National Association of Performing Artists and the American Society of Recording Artists already have suits pending to establish the right of the performer to control his phonograph record output and a decision granting that right is already on the books in Philadelphia where two stations have been licensed by N.A.P.A. to use records. RCA-Victor feels that it's time for the manufacturer to assert himself. Other recording firms will probably follow suit.

will make sulphite pulp not for paper but for rayon and kindred products. There is a special significance in the fact that Rayonier is the first to act upon Dr. Herty's findings and go into large-scale production of rayon pulp from slash pine.

A Merger of Several Companies

Rayonier is an outgrowth of companies which were successful in producing pulp for rayon from western hemlock. It represents a merger of the Ranier Pulp & Paper Co., Grays Harbor Pulp & Paper Co., Olympic Forests Products Co., Shaffer Pulp Co. The new Florida plant will be operated by the Fernandina Pulp & Paper Co., a new member of the family. A view of the building operations is dramatic evidence that the company is sure of having overcome the removal of pitch from slash pine fibers and of all other difficulties which have seriously hindered experimenters with this source of rayon.

The Fernandina mill has its own dock on a 28-foot channel a short distance from the open sea. Buildings are of reinforced concrete, without windows. It expects to go into operation about the first of next July. Production will be 180 tons daily with provisions for trebling this amount when conditions justify.

The mill will employ three hundred persons—and further complicate the housing shortage in reawakened Fernandina. Some 140,000 acres of pine lands are owned by the company and the produce of additional acreage is available.

The location of the plant represents a bit of long-term executive strategy which other companies are studying. It is said that the entire executive staff of Rayonier will be moved to Fernandina from the Pacific Northwest. Here they will find an ideal set-up for raw materials, all-year operation, cheap freights to the principal American and export rayon markets.

Sulphate and Sulphite Processes

Pulp for kraft paper and paperboard is made by the sulphate process. This involves "cooking" the wood chips in a liquor made principally from salt cake and lime. Since nearly all the chemicals are recovered and used repeatedly, this is a highly economical system.

The sulphite process, on the other hand, is more costly. The original chemicals are higher priced and there is a smaller recovery than is the case of sulphate.

Rayonier will make use of its own sulphite process. It involves "cooking" the wood chips in liquor made principally from sulphur and limestone. The Fernandina plant can bring sulphur in cheaply from Texas and Louisiana ports; Florida has plenty of limestone just below its subsoil.

Fresh water is another requisite. Rayonier's new plant will require 30,000,000 gal. daily. This will come from wells near the plant site.

Production Costs Kept Secret

Production costs at Fernandina are being kept secret by Rayonier. But known facts will give a rough idea. Dr. Herty asserts that an 89% cellulose pulp can be made from slash pine for $35.22 per ton. The 1938 contract price for rayon pulp is $95 per ton at the mills but actually the present market slump has brought offerings at a good deal less.

In addition to the mill price, Rayonier's pulp costs $6 a ton for shipping to Atlantic ports. The company's new Fernandina mill not only reduces production costs but will be much nearer the big rayon manufacturing centers of the southeast and the North Atlantic seaboard.

Meanwhile, pulp made by the cheaper sulphate process also makes a bid in the rayon market. It is reported that the new mill of the Southern Kraft Corp. (International Paper subsidiary) at Spring Hill, La., will produce bleached sulphate pulp for rayon. Paper chemists have stated that southern pines are among the woods which tend to respond better to sulphate treatment than to sulphite.

Intense competition between the two is predicted. It is claimed that the sulphate process of making pulp yields the stronger fiber which makes it especially desirable for textiles.

Developments in Rayon Making

Curiously, rayon originally was made from wood pulp imported from Sweden, then swung over to cotton linters, is now swinging back to wood pulp. Cotton linters have the highest natural cellulose content. Practice has been to blend wood and linters (in the viscose process) to improve the elongation, strength and color of the softer wood fibers. Recent developments in pulping and bleaching have about wiped out the differences.

Moreover the fluctuations shown by the cotton market and artificially high prices stimulated by federal policies have driven the chemical industries to search for a more stable raw material. Wood appears to be the answer for rayon, lacquer and plastics manufacturers. With proper foresting,

the southern pine belt offers an inexhaustible supply.

Rayonier is a natural leader. Its companies developed bleached sulphite from Washington state hemlock to a point where it absorbed 40% of the domestic rayon market.

Mail-Order Prices

They're still at bargain levels, new catalogues disclose. But inventories are cut.

THE spring-summer edition of the catalogues issued semi-annually by Sears, Roebuck & Co. and Montgomery Ward & Co. were rolling off the presses this week, ready for mailing next week to the 14,000,000 rural residents who are the main customers of the two big mail-order houses.

However, the most avid readers of the new issues will not be found out on the kerosene circuits, but in the buying offices of big department stores, in the back rooms of little specialty shops, and in the sales headquarters of consumer goods manufacturers.

As far as the catalogues can be relied upon as a guide to the pricing pattern of the next six months, the outlook is for no appreciable change. In other words, prices remain essentially at the bargain levels which prevailed after the sharp Christmas markdowns had been made and which were reflected in the midwinter flyers issued on limited lines about a month ago by the mail-order houses.

Sears, Roebuck & Co. says that this means an average reduction of 7% to 10% from prices which were quoted on comparable goods in the fall-winter catalogues of last July.

Improved Inventory Position

However, a price advance by next summer, perhaps earlier in the retail stores division, is suggested by the vastly improved inventory position which both mail-order houses expected to be able to report at the close of their fiscal year on Jan. 31.

Some analysts hazard the guess that inventories may show a reduction of as much as 20% beyond budgeted expectations.

This encouraging showing has been achieved because the mail-order companies were able to haul in canvas and curtail reorders drastically at the first sign of the sharp break in commodity prices last fall. On some lines it is reported that reorders were cut as much as 80% below last year's requirements.

The Christmas sales records turned in by the retail store divisions, following average markdowns of 5% to 7%, aided materially in cutting stocks on hand.

Newspaper Tax Wins

Federal court sustains Arizona levy on revenue, including that from advertising.

For the past half dozen years newspaper publishers and other owners of advertising media have been confronted with the threatened imposition of state sales taxes (*BW—Sep11'37,p22*) In their campaign of opposition they have thus far enjoyed considerable success, for only a small number of states specify that advertising shall be included among the sources of income taxed.

Last week, however, publishers suffered a serious reverse. A special three-judge federal court, the highest tribunal to which any such tax on newspapers has yet been appealed, upheld the Arizona law, which requires newspapers to take out licenses, levies 1% on their gross income, and provides for suspension of publication, if the tax for any month is not paid within 20 days of the month end.

Says Freedom Is Threatened

Elisha Hanson, counsel for the Arizona Publishing Co., which issues the Arizona *Republic* and the Phoenix *Gazette*, had argued that the power to tax newspapers implied the power to destroy their Constitutionally guaranteed freedom. He maintained that if the 1% tax were held valid, a precedent would be set for the exaction of other and higher levies that would subject the press to the control of the state legislature. The three federal judges—Clifton Mathews of the Circuit Court of Appeals in San Francisco, Dave W. Ling of Phoenix, and Albert W. Sames of Tucson—were unimpressed, and they set aside the interlocutory injunction which had restrained collection of the tax.

An appeal to the Supreme Court is planned, but advertising interests are concerned lest in the interim many of the 23 states which have some kind of sales tax law consider the Arizona decision sufficient precedent for an amendment to tap publishing revenues.

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Cooler for "Hot" Cars

DALLAS, TEX., has moved against dealers in stolen automobiles and dangerous jaloppies with a drastic licensing ordinance. Used-car dealers pay $50 a year for licenses; sellers of used cars and parts pay $25. Itinerant dealers must post, in addition, a $10,000 bond. Permits are required for dismantling. All cars transferred must meet safety requirements.

Applicants are investigated by the police. A commission recommends (or refuses) licenses which are issued by the City Council. On the commission are representatives of auto dealers.

Price League Reborn

Old organization that sought "fair trade" laws is brought to life again for new fight.

WHILE "fair trade" laws placidly pile up more court victories for themselves, the loudest noise and the most potent propaganda on the subject continue to come from "fair trade" opponents. And now, with mutterings of the repeal of the Tydings-Miller federal enabling law, and attacks from organizations like the National Grange, the proponents of price maintenance are going to unite to preserve their gains, and to answer the propaganda of the anti's.

On Feb. 28, at Manhattan's Hotel Astor, the old American Fair Trade League is to be revived. First set up in 1911 after the Supreme Court, in the Miles decision, had declared price maintenance unconstitutional, the league agitated for the "fair trade" cause in its early years, but finally died in 1933 of inactivity. The revived organization, with William H. Ingersoll, one of "fair trade's" greatest yea-sayers, as organizing chairman, aims to cut down the excesses and mistakes of adherents of price maintenance, and meet the opposition on its own ground.

"Fair Trade" Clearing House

The league will function as a "fair trade" clearing house, with retailer, manufacturer and wholesaler, and trade association members.

It will aid in the drawing up of contracts, and in keeping them in effect. It will keep track of litigation and legislation affecting "fair trade." Most important will be its educational work. Attacks will all be answered, data collected and disseminated to show the benefits of "fair trade," and speakers will go out to plead the cause. Backbone of the educational campaign will be the idea that "fair trade" is nothing revolutionary, that it was widely used in this country before 1911, and that we are now merely making a "return to the path upon which we started." Instead of concentrating on getting Congressional action, as the old league did, the new league will concentrate on public opinion.

The Electrical Appliance Dealers of Brooklyn, meanwhile, launches a campaign to get trade-in allowances down in black and white in the "fair trade" contracts of the radio set industry which go into effect in April.

And in Manhattan, "fair trade" proponents claimed another victory when a court, preparatory to trying the Macy radio trade-in case (*BW—Nov27'37, p20*) refused to allow the Macy defense to question the Constitutionality of the Feld-Crawford Act, which had already been sustained by the highest court in the state.

Coin Machine Parley

Convention of $30,000,000 industry attracts 55 exhibitors and 5,000 registrants.

MANUFACTURERS of coin-operated machines shy away from the term "slot machines." They say people play "slot machines" chiefly for amusement, so these and numerous other machines are lumped together under the term "amusement devices." The manufacturers' two other chief sources of revenue are vending machines and scales. Yet they have an amusement device which they like to talk about. And at their tenth annual exhibition and convention in Chicago's Hotel Sherman last week they did plenty of talking about it. It is the popular coin-operated phonograph, which one finds in saloons and lunchrooms.

The industry gets an annual business of about $30,000,000, divided mostly among the 24 companies that constitute the membership of the National Association of Coin-Operated Machine Manufacturers. Sixteen of those companies are in Chicago, and two are near Chicago—at Aurora and Morris, Ill. Two are in Columbus, O.; one is in St. Louis; one in North Tonawanda, N. Y.; and one in Belleville, N. J.

There were 55 exhibitors at this year's show. Registration totaled 5,000, comprising manufacturers, jobbers, and operators—the boys who put coin-operated machines into saloons and restaurants and take a nice percentage of the gross. A dozen or more came from Canada, two from France, and one from South Africa. The annual banquet drew an attendance of 2,700.

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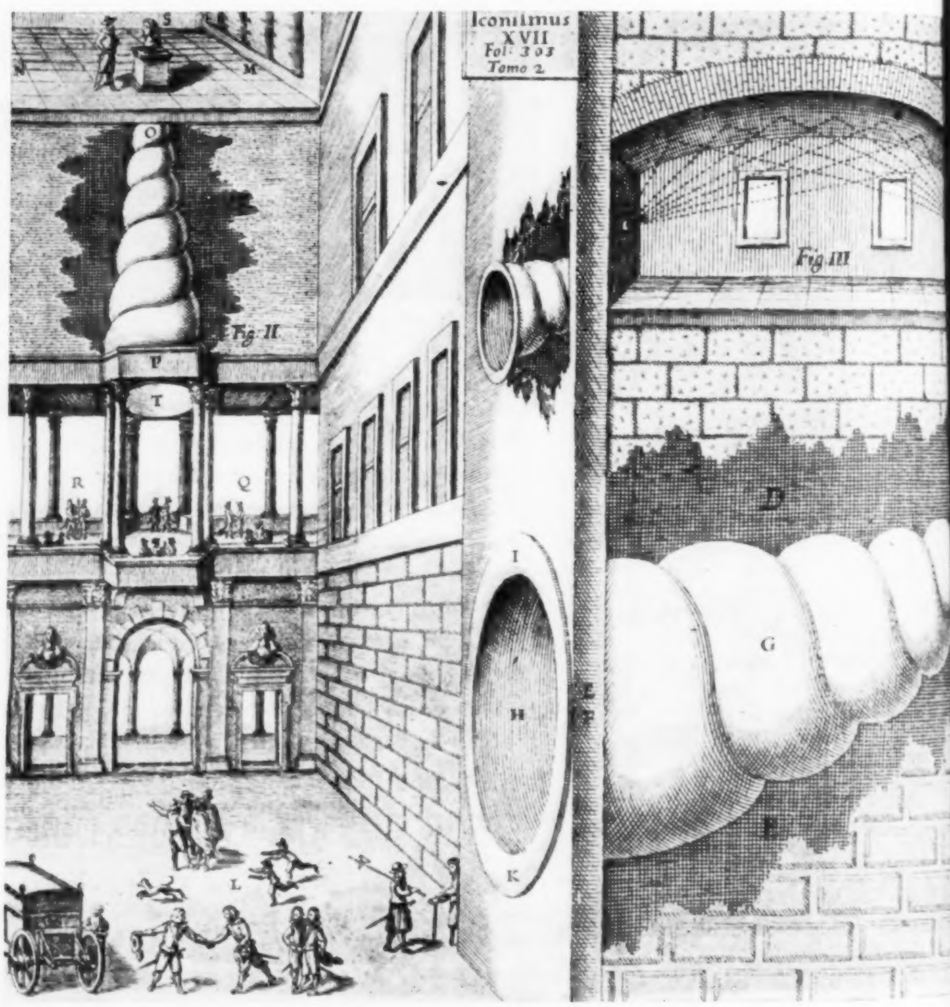
Retailers' Problems

THE annual convention of the National Retail Dry Goods Association, which draws department store operators from all parts of the country, gets under way this year at the Hotel Pennsylvania on Jan. 31, running through Feb. 5. The convention program, worked out from results of a poll of N.R.D.G.A. members taken last November, concentrates on those issues to which members responded most uniformly.

Well out in front is the subject of costs, which rose to plague retailers last year. The retailers find transportation and labor charges up and expect receiving and marking costs to mount with the increasing demand for fiber identification. Also on the agenda are employee relations, vendor relations, the consumer movement, pending legislation affecting retailers (most notably the promised FTC rules for furs, woolens, silk, shrinkage and the like), credit policies, sales promotion, labelling, and customers' returns.

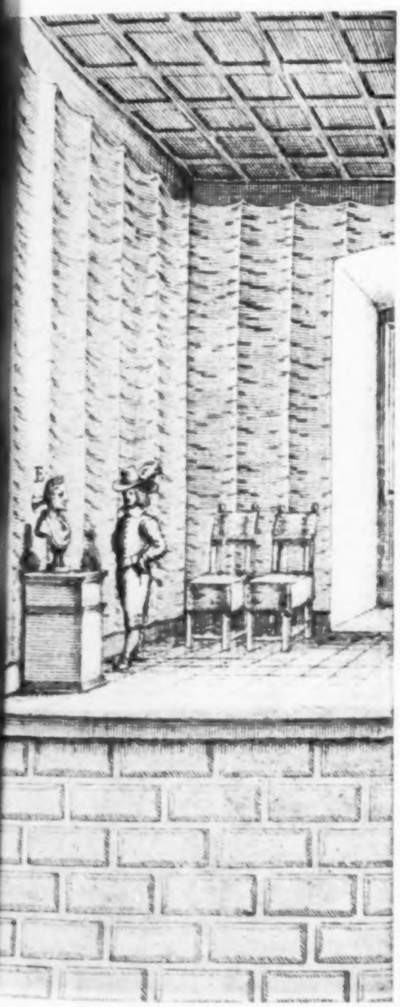
We're not so young

A curiously imaginative fellow in the 17th Century, by the name of Athanasius Kircher, thought up this broadcasting system—so that the intrigued listener in breeches at *(E)* could hear everything said in the central court *(L)*. The rest of the family could listen, too, with individual "loud-speakers" in each room. ¶ But that was only three centuries ago. Long before that—long before Herr Kircher struggled with giant trumpets—the point and purpose and power of broadcasting had taken form. *In the living voice.* Before history first was scratched



BROADCASTING SYSTEM OF THE 17TH CENTURY—*from the Bettmann Archives*

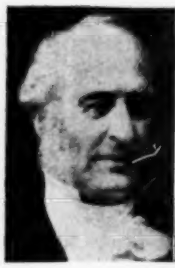
on stone, the voice had grooved an effortless, instant path into the mind. That path is re-grooved in every child today—long before he seeks any other communication with the world. And it grows with the adult. ¶ We did not need radio to discover this. Here is what Pliny the Younger said, over eighteen hundred years ago: "*We are more affected by words we hear, for though what we read in books may be more pointed, there is something about the voice that makes a deeper impression on the mind.*" ¶ The truth of Pliny's shrewd observation has been amply confirmed in many laboratories of modern science. If you care to weigh the evidence for yourself, we will send you a copy of EXACT MEASUREMENTS OF THE SPOKEN WORD. It is a little book. But it summarizes the work of more than a score of psychologists who, for 34 years, have made comparative studies of the spoken and written word; and who have carefully measured the *impact* made by words, spoken and written. ¶ Their conclusions—which Pliny already knew—are a basic explanation of the response which so many millions of listeners make to radio, today.

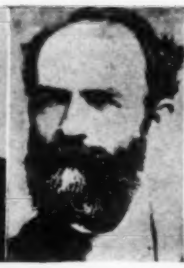
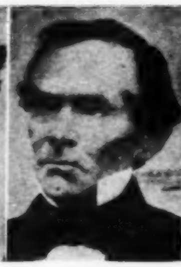


BROADCASTING SYSTEM IN THE 17TH CENTURY. *Athanasius Kircher (1601-1680) designed his "loud-speakers," such as at E and S, in the shape of ornately sculptured heads "with open mouthes." This dramatic device helped make the entire idea very mysterious and supernatural to 17th Century listeners. The principles of sound transmission and amplification did the rest!*

The COLUMBIA *Broadcasting System*

485 MADISON AVENUE • NEW YORK CITY




Commodore Vanderbilt | Jubilee Jim Fisk | Jay Gould | Uncle Dan'l Drew | Edward H. Harriman | Mantis J. Van Sweringen | Orris P. Van Sweringen

In Again, Out Again, Erie

115-year-old railroad has had a colorful history. Jay Gould robbed it blind. The "Vans" improved it physically. Now it's in the wringer again.

IT got to be a habit with the Erie to go through the wringer every time there was a depression. The railroad was chartered in 1832. Before it was 10 years old, it was in reorganization. Within the next 50 years, it repeated three times, and now it's taking a fifth turn (*BW—Jan22'38,p52*).

Yet it skinned past the depression of 1907 with the help of Edward Henry Harriman. Its coal holdings pulled it through another hairbreadth scrape or two. In 1929 it even came dangerously close to smashing a Wall Street conceit dating from the last century—the Erie *almost* paid a common dividend. Yet in 1937 the venerable road is back in the courts, and this despite the fact that it's in the best physical condition in its history.

A Railroad "with a Past"

The situation is almost as though the road couldn't live down its past—those days of 70 and 80 years ago when it was robbed blind by the Drews, Goulds, and Fisks; the more recent times when its road was a 2,300-mile streak of rust; times when its service was such a joke that its management grew philosophical and compiled a book called "What Other People Say About Us," in which were all the smart cracks about the poor old Erie.

Yet the Erie's present plight doesn't arise from moss-grown gags. In the last 10 years you haven't heard many people—certainly not many railroaders—say: "If you want to get to Chicago the worst way, take the Erie."

Erie's present troubles are a result of decades of loose railroading and looser financing—the era, only a few years dead, of consolidation at any price. It may not be the last railroad to get into difficulties; probably won't be if the carriers don't get further freight rate increases. Yet it typifies the excesses of the past, just as it typifies the reforms which came over the railroads in the last decade.

It typifies the reforms because, contrary to popular opinion, the late Van Sweringen brothers really improved their railroads. Whatever may have been their weaknesses in high finance, in real estate, in piling holding company on holding company, and in trying to extend their railway system beyond St. Louis, it is generally agreed in railroad circles that they did a good job by their Eastern carriers.

How "Vans" Began Rail Career

It's perfectly true that the "Vans" got into railroading quite by accident. Back in 1916 they were building a six-mile traction line from their $80,000,000 Shaker Village (classy Cleveland suburb) to bring their home buyers to the heart of the city in 10 minutes. They couldn't get the last two miles of right of way, so they bought for $8,500,000 the New York, Chicago & St. Louis.

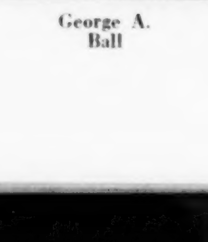
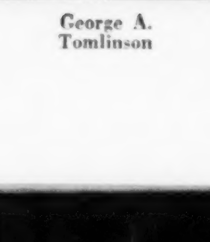
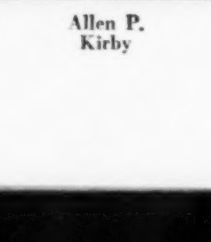
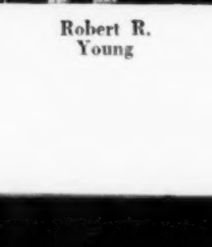
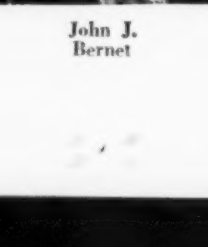
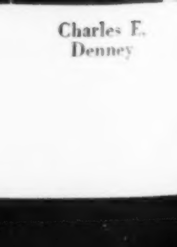
Finding themselves with the dilapidated Nickel Plate, they decided to do something with it. To start with, they hired John J. Bernet, vice-president of the New York Central, who believed the first secret of successful railroading was to build a good railroad and the second was to run it economically. Shortly they envisaged the plan of taking in the Chesapeake & Ohio and the Erie to form an Eastern trunk system.

Erie Railroad Improved

In 1926, they got control of the Erie and on Jan. 1, 1927, Bernet left the presidency of the Nickel Plate to take the same position with the Erie. In two years, with the help of his favorite operating man, Charles E. Denney, he built it up from a bunch of jokes to a pretty smart property. In the meantime, the "Vans" had enlisted the financial support of the House of Morgan and the astute Guaranty Trust Co. of New York.

Admittedly, the "Vans" did all this with half a million dollars of their own money (plus profits on their investments—Erie common jumped from $26 a share when they bought it in 1926 to $93 in 1929) and hundreds of millions recruited through their bankers in the open market. Yet there have come no critics to say that they watered Erie; the capitalization mounted, it is true, but not exorbitantly when it is considered that Bernet found that one of its locomotives had been hauling freight for 48 years, and other rolling stock was almost as antique. It cost money to make a railroad out

Photos from Wide World, Acme, International, Harris & Ewing

George A. Ball | George A. Tomlinson | Allen P. Kirby | Robert R. Young | John J. Bernet | Charles E. Denney

of Erie. In fact, since 1926 the road's debt has grown nearly $45,000,000 to a total of $281,368,000, and the common stock has been boosted from $112,481,000 ($100 par) to $151,106,700.

This debt of nearly $300,000,000, funded and floating, is what has now thrown the road. Everyone knew the debt was very high in relation to the property, but the road's traffic was dense enough so that it has, on the average, just about covered its fixed charges over the last 10 years. It would have been tided over until the Interstate Commerce Commission decided on freight rates if it could have gotten ready cash from Reconstruction Finance Corp. (*BW—Jan8'38,p46*).

I.C.C. Asks Guarantee

What happened is history now, but the ICC insisted that the Chesapeake & Ohio either guarantee the loan of $6,006,000 that Erie wanted from the RFC, or put up collateral. Chesapeake & Ohio recently was granted authority to take over actual control of the Erie and Nickel Plate, so the ICC supposed the parent company would do this much for the subsidiary. But C. & O. wouldn't. It figured it could consolidate Erie on a more solid basis after the debt had been washed down through reorganization. It remains to be seen if the bondholders will allow the debt to be washed down to the extent that C. & O. apparently anticipates.

It may be many years before the motives of those who have controlled the Erie in the last decade assume their full and true significance. Super-salesman Orris P. Van Sweringen, and his retiring brother, Mantis J., might have emerged, but for their untimely deaths, as the railroad builders of these times; again they might never have been more than they now appear—men who soared and flopped. George A. Ball, the Muncie, Ind., fruit jar millionaire, and George A. Tomlinson, the Great Lakes shipping wizard, bailed the "Vans" out in 1935, but never expected to control their railroads. Death of the brothers left them in charge. Mr. Tomlinson sold to Mr. Ball, and the latter got out as soon as he could find a buyer.

New Owners Face Problems

The new owners are Robert R. Young, a small, sandy-haired broker who was formerly with General Motors' finance division, and big Allen P. Kirby, heir to a 5 and 10 cent store fortune. Owners come and go in Erie. The financial and railroading stature of these latest remains to be determined. They have enough troubles—political as well as financial—with the wreckage of the "Vans'" holding companies to prove their mettle.

It's much easier, at this distance, to judge the earlier owners of the Erie. Little record remains of those pioneers

who wanted, in 1832, to build a railroad from New York to the shores of Lake Erie west of Buffalo. But it is recorded that their $4,500,000 of capital wasn't enough even to get a good start, and that the project was in bankruptcy in 1842. Another $6,000,000 was raised and the road built—Lake Erie to Piermont, N. Y., on the west side of the Hudson several miles from the thriving seaport.

The early owners decided to get into Jersey City, right across the Hudson from New York. That was in the 1850's. Daniel Drew had made a lot of money as a stock drover and later as a Hudson River steamboater. He got on the Erie board of directors in 1851 and found out about their plans to enter Jersey City. He blocked the road's every move, surreptitiously, while attending nightly prayer meetings in Mulberry Street. When the road was desperate for $1,500,000, Uncle Dan'l came forward with it—in exchange for a mortgage on the rolling stock and his own election as treasurer of the road.

There began the milking of the Erie. He who was known variously as Deacon Drew and the Speculating Director, saw the road into its second bankruptcy in 1859, but not until he had made millions. Then originated the saying:

"Daniel says up, Erie goes up. Daniel says down, Erie goes down. Daniel says wiggle-waggle, Erie bobs both ways."

Just a Starter for Uncle Dan'l

But all this was only a starter. In 1866, Uncle Dan'l loaned the Erie $3,500,000. In exchange he got unissued stock and convertible debentures—the better to sell it short, of course, and still have something to deliver. For Drew was a bear by nature, a destroyer.

Next year he ran into a builder. It was Cornelius Vanderbilt. Commodore Vanderbilt had quit steamships and by 1867 had built the primitive New York Central. He had big ideas of including the Erie. The battle began to get hot in 1868. Meanwhile young Jay Gould and James Fisk, Jr., had chinned themselves onto the Erie board. So it was the Commodore against Drew, Gould, and Fisk. Then came the notorious "Erie wars."

The redoubtable Dutchman felt, quite rightly, that cadaverous old Deacon Drew had committed enough crimes against the Erie to justify an accounting. He got a flock of injunctions to prevent Drew and his board, pending a suit for restitution of the spoils, from doing anything, most of all issuing convertible debentures. But Drew, who knew Tammany's "Boss" Tweed and a lot of judges, got an even more formidable batch of court commands, compelling him to do everything that Vanderbilt's said he couldn't.

The Commodore bought Erie stock, and Drew, Gould, and Fisk sold it hand over fist. Meanwhile, injunctions or no, the Drew crowd started work on their private printing presses and turned out $10,000,000 of convertible debentures. They converted them into Erie common, and sold it to the Commodore in great gobs. Suddenly Wall Street caught on. The market crashed. Vanderbilt had $7,000,000 worth of phoney Erie, and he'd paid something like $4,000,000 in good, hard cash.

They Scurry to Jersey City

The Commodore, next day, went to court for a contempt order against all the Erie directors for issuing forbidden stock. But the Erie directors had expected just that. Each with a book of accounts under his arm, and Uncle Dan'l supposedly lugging $6,000,000 in cash, they scurried across the Hudson to Jersey City and proceeded to barricade themselves in Taylor's Hotel against the Commodore's process servers. Puny cannon were mounted on the hotel's roof and a friendly New Jersey administration (Erie paid a lot of taxes in Jersey) was ready to call out the militia.

A new bombardment of injunctions filled the air. The "Erie thugs" tried to get a bill through the New York legislature to legalize the stock sold to the Commodore. Legislators' pocketbooks were fattening when, suddenly, the principals compromised. Vanderbilt allowed Drew and his pals to keep their profits—but Drew had to get out of Erie and they had to pay the Commodore a reputed $9,000,000. The $9,000,000, according to the story of the day, came out of the Erie treasury. Anyhow, Gould became president of Erie, Drew dropped out, and Vanderbilt never again sought to buy the road. To fortify themselves, Gould and Fisk put Boss Tweed and the then brains of Tammany Hall, Peter B. Sweeney, on the Erie board.

Fisk Becomes a Producer

The story goes that Gould later ruined Drew. He is supposed to have enticed him into buying Erie (when Gould was selling) and into selling Northwestern short (when there was a bull pool working). Meanwhile, Fisk was buying Pike's Opera House and office building at the corner of 23rd Street and Eighth Avenue in New York, reputedly with about half a million of Erie's money, and reconditioning it with another $350,000 from the Erie. Then Fisk turned around and leased all of the building except the theater to the Erie and entered into an abortive career as a producer of stage spectacles—one night a chorus of 80 blondes and the next 80 brunettes. In 1871 Fisk was killed by E. S. Stokes in a quarrel over luscious Josie Mansfield.

So it went, until the British stockholders (for whom Erie always seemed

to have a fatal fascination) got tired of it all. A couple of committees were formed. They acted together for a while, but one later split and, by the testimony of one of its own men, bought off enough directors to oust Gould and Fisk. That was in 1872.

But Gould still had a trick or two in his bag. He was named in fabulous suits by the new Erie management for sums drained out of the railroad. He settled a $9,000,000 claim for $6,000,000. Meanwhile, he bought Erie stock, knowing it would go up on the news that he was kicked out and that he was settling. And the real estate and securities he gave in settlement were found to be worth only about $200,000, while he is supposed to have cleaned up in the market.

The Erie, in the meantime, had seen its issued stock increased from $25,111,210 in 1867 to $86,536,910 in 1871; its debt had spurted from $26,000,000 to over $40,000,000. The new management was accused of doing some stock jobbing in its own account, but in any event the financial crisis following 1873 threw the road into its third bankruptcy. When it emerged in 1878, the English stockholders had been ousted in their turn (although not without a bitter fight).

Erie's Capital Grows

The capitalization of the railroad really wasn't written down much in that reorganization, nor was it in the fourth—growing out of the financial crisis of 1893. It came out of the latter with much the same common and preferred stock capitalization it has today. Growth of the debt from around $145,000,000 in 1897 to the $280,000,000 of 1938 is the biggest difference.

Yet the capitalization was large enough so that, in 1907, the road was in trouble again. There was a debt of $5,500,000 to be met and no ready cash in that, the year of the "bankers' panic." Things were recovering well enough so that J. P. Morgan was willing to underwrite $5,000,000 of bonds for sale, to provide for current needs, but there was no apparent way of meeting the bond maturity.

So a powwow was called at the House of Morgan. Among those attending was Edward H. Harriman, a railroad financier of parts. He figured that if a road like the Erie failed, recovery would be nipped. He offered to raise part of the needed $5,500,000; nobody would volunteer to raise the rest. So, before 3 o'clock the next afternoon, when the default would have become official, he put five and a half million on the line—and, unlike his predecessors in Erie, didn't even ask for control.

The Erie didn't have any E. H. Harriman in 1938.

Many Jobless Enroll

U. S. Employment Service gets record number of names, as compensation starts.

THE United States Employment Service this month is doing a land office business registering workers out of jobs. Commencement of unemployment benefits in 21 states and the District of Columbia explains the rapid rise in applications for "situations wanted."

When a person applies for unemployment compensation, his name automatically goes on the employment service register. The government tries to find him a job as soon as possible in order to take him off the benefit list. During December, 452,035 new applicants were registered, the largest number in any month since December, 1935.

Seasonal influences and the curtailment of employment due to the business recession account in part for the heavy increase in registrations, but undoubtedly the major influence was unemployment insurance benefits which started this month.

The volume of applications in December for those states which start paying unemployment benefits rose 76.7% as compared with November, whereas for the country as a whole the gain was only 51.1%. In the non-benefit-paying states, the average increase was 12.9%.

Currently, the United States Employment Service has 4,874,924 job seekers in its "active file." As time goes on and as unemployment benefits spread throughout the country, the Employment Service may become a reliable source of up-to-date statistics on unemployment, since workers seeking benefits will have to register with it and hence there will be a running check on the number unemployed in those industries which are covered by insurance.

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New Santa Fe Trains

THE Atchison, Topeka & Santa Fe Railway Co. is about ready to launch a 1938 passenger expansion program that may take some breaths away. First moves will come on Washington's Birthday (Feb. 22), when the railroad will put into service a second diesel-powered *Superchief* and a diesel-powered de luxe chair car train *El Capitan* between Chicago and Los Angeles.

Next move will come about the middle of March, when the new streamlined *Chiefs,* pulled by new Baldwin locomotives, will go into service. Then in April two new diesel-powered, streamlined trains, called the *Kansas Cityan* and the *Chicagoan,* respectively, will go into service between Kansas City and Chicago. These two trains are being built by the Edward G. Budd Co., with 1,800 horsepower diesels coming from the Electro-Motive Corp.

New Products—New processes, new designs; new applications of old materials and ideas.

WINTER snow-shovelers, who frequently must be about their business before sun-up, will welcome a new flashlight with special attachments for shovels. The flashlight was recently placed on the market by Burgess Battery Co., Freeport, Ill.

U. S. BUREAU OF MINES approval has just been given to Mine Safety Appliances Co., Braddock, Thomas & Meade Sts., Pittsburgh, for its newly developed "Dustfoe Respirator." Weighing less

Mine Safety Appliances

than 3¼ oz. and providing full protection against dust particles as small as 1 micron (1/25,000 in.) the aluminum and rubber device does not interfere with the wearing of goggles, spectacles, welding helmets, or head-coverings of any kind. Low-cost cellulose filters may be replaced in less time than it takes to tell about them. Mine Safety Appliances Co. is also bringing out a new lightweight one hour oxygen breathing apparatus, weighing 18 lb.

A NEW synthetic resin finish called "Polymerin," which dries by polymerization rather than oxidation, is coming from the laboratories of Ault & Wiborg Corp., 75 Varick St., New York. Oven temperatures and the mass of metal covered by the finish determine the processing time, which varies from a few minutes to a few seconds. The finish comes in any color and in any degree of gloss or dullness.

Two old family friends are appearing in modern dress: (1) A drapery chintz called "Everglaze" is being given a patented finish by Joseph Bancroft & Sons Co., Wilmington, Del., which makes it proof against all the perils of laundering and dry cleaning. The process, which is not a coated surface treatment, makes the lustrous fabric softer to handle and easier to drape. (2) A line of natural sponges called "Princess Pastel" is being dyed in colors to match modern bathrooms and packed in acetate containers with ribbons to match, by Gulf & West Indies Co., Inc., 23 Murray St., New York. The company is also entering the marts of trade with a vegetable fiber bath-massage brush equipped with a patented handle. Soap may be placed inside the "Princess Skin-Glo" brush if more copious lather than usual is desired.

"RENEWABLE Pumping Units" in the new series of Timken Fuel Injection Pumps are almost as easy to replace as an electric light bulb or a steel pen. Pre-metered by the manufacturer, Timken Roller Bearing Co., Canton, O., the units may be kept in stock by the diesel operator for insertion without disconnecting the injection pump housing from the engine.

THERE are many times during the showing of movies and stills to sales and other meetings when it might be desirable to spice up the sessions with a little "chalk talk," if one could only see chalk marks in a darkened room. Westinghouse Electric & Mfg. Co., Bloomfield, N. J., is adding to its line a "Fluorescent Chalk" which makes its marks like ordinary chalk under ordinary light and glows in the dark when irradiated with ultraviolet rays, such as those from a sunlamp enclosed in a black globe.

FORTUNATELY for Jefferson Electric Co., Bellwood, Ill., there are still many locations and conditions where electric voltages are below the correct value for electric refrigerators and other appliances. Its new "Auto Booster Transformer" plugs into any convenience outlet to permit selection of three different voltage taps—100, 115, and 125 v.—to provide the right voltage for most efficient operation.

Two unhappy results follow cold drafts which sneak under closed doors in the winter: cold feet and increased fuel bills. Raysteel Specialties, Inc., Terminal Bldg., Cleveland, has developed the "Sentry Stop-a-Draft" which screws inconspicuously onto the bottom of any standard size door. When the door opens an ingenious device flips it up out of the way of rugs and carpets; when the door closes, it closes the gap between door and floor, or threshold, instantly and tightly.

NEWEST edition of the "Roto-Typometer" (*BW—Mar6'37,p49*) eliminates the necessity for counting characters in fitting typewritten copy to a given printing space. As developed by Roto Calculating Devices Co., 354 Roger Williams Ave., Highland Park, Ill., the device makes it possible for the user to measure dimensions of his copy, twirl a dial, and read instantly the size type he needs and even the amount of leading required. Conversely he can measure the type area in his layout, select the type he most desires, and find quickly how much copy to write.

PENETRATION of roots into the joints of clay or concrete pipe sewers has long presented a major problem to manufacturers, building operators, and householders, to say nothing of water works operators. A-B-C Mfg. Co., 221 S. Fourth St., Quincy, Ill., has developed a series of copper "Stop-Root Rings" for insertion at each bell joint. Copper, by natural corrosion, provides a permanent and positive supply of poisonous salts through which no root can penetrate and live.

Watson

ELECTRIC SIGNATURES—Glenn W. Watson, 2484 National Bank Bldg., Detroit, has invented an "Electric Signature Writer" which promises automatically to take care of signing checks, bonds, stock certificates, and other time-consuming formal papers. Signatures to be copied may be prepared in permanent form for reproduction at will or made up each day as required. Fountain pen follows characteristics of original even to degree of pen pressure. Demonstration model is housed in glass for better visibility of its inwards.

Harris & Ewing

RULES TVA VALID—It was presiding judge Florence Allen, frequently mentioned in recent weeks as a Supreme Court possibility should another vacancy arise, who last week read the 8,000-word decision of the Sixth Circuit Court of Appeals upholding the whole TVA power program.

Utility-TVA Deal?

Licked in court, companies want to sell to government, but price is obstacle.

THE New Deal won the most sweeping victory yet scored for its power policy when the United States District Court, Eastern District of Tennessee, upheld the Tennessee Valley Authority on every point. Not only was the decision sweeping, but it was concurred in by all three of the judges sitting in the famous "18 company case" to test Constitutionality.

The case is, of course, going right on up to the Supreme Court (a District Court decision rendered by three United States judges may skip the Circuit Court of Appeals). But public utility men don't even pretend to believe that the high court is going to reverse the decision on any important points. Since the Supreme Court validated Public Works Administration loans and grants for municipal power projects (*BW—Jan8'38,p17*), the power company executives feel they are going to be obliged to "take it," whether they like it or not.

Reminded of a Story

One of the power company men says he feels like the small Negro who sat in the poker game. It was 'way along toward morning, and only two players were left. They had all their money in the pot. Said the big one to the small one:

"What you got, boy?"

"I got four aces; what you got?"

"I got three tens and a pow'ful sharp razor. I win!"

The way the wind is blowing, the government can bring the utilities to their knees. TVA is in a fair way to doing it right now, and Bonneville and other federal power projects under way or contemplated will be expected to proceed along the trail which TVA is now to blaze.

Mild Talk Pleases Utilities

With that in mind, the utilities are overjoyed to hear a little bit of rather mild talk coming from Washington. Norris, ardent public ownership advocate, is prepared to sponsor legislation to empower TVA to buy out the private companies (rather than simply wreck them). David Lilienthal, member of TVA's board of three who is dominating the project's policy, declares that the decision in the 18 company case "paves the way for a rational, businesslike adjustment of relations between TVA and the private power companies."

Official Washingtonians are saying unofficially that the government is going to try to work the thing out. They doubt that President Roosevelt will agree to a board to arbitrate a price for the sale of utilities' properties as Wendell L. Willkie of Commonwealth & Southern suggested (*BW—Jan22'38, p16*).

They think, though, that the government will buy, or arrange that some public body be enabled to buy, the properties threatened with ruin through TVA competition. But they all declare that Uncle Sam isn't going to buy any "watered" utilities. And the New Dealers and the utilities are not necessarily in agreement as to what is "water" in a financial sense.

As to the court's decision, the TVA act is Constitutional; TVA has been carrying out its Constitutional objects lawfully; there hasn't been any coercion of the private utilities' customers; there haven't been wrongful acts of collusion between PWA and TVA in getting customers for the latter, and TVA has not made flood control and navigation secondary to sale of electric power. That's about all that could be said on the subject.

Union Climax in L.A.

Fight of Los Angeles business men to defend open shop is close to crucial stage.

THE significant labor front on the Pacific Coast has shifted again to Los Angeles where, early in February, Dave Beck's drive to unionize the "open shop citadel" is expected to reach a crucial stage. Beck is the dominant labor leader in Seattle.

The outcome may have an important effect on the competitive position of the principal cities of the Coast and, for

LABOR ANGLES

More and more attention, by more and more companies, is being paid to that branch of management variously called "industrial relations," "labor relations," "personnel work," or just "labor problems." Last week the Armour Institute conference opened in Chicago; on Feb. 15 in the same city the American Management Association will draw some 400 industrial management people to one of the most thorough-going seminars yet devised; on Feb. 5 at Newark the New Jersey Industrial Conference will get under way. Meanwhile, the colleges are expanding their labor relations courses, with New York University getting a big play on its lecture course beginning Feb. 2. Among others, Sec. of Labor Perkins, Sen. Wagner, Mrs. Elinore Herrick, and Dr. W. M. Leiserson will lecture in the weekly series.

* * *

The secondary boycott, or secondary picketing, is bothering West Coast business men and courts about as much as it does Easterners. This week a decision at Portland, Ore., was being studied; Judge J. A. Fee banned secondary picketing in union jurisdictional disputes. The case arose from a lumber-mill scrap between A.F.L. and C.I.O. groups, which turned into picketing of local docks by the C.I.O. Employers charged restraint of trade by conspiracy, and Judge Fee agreed.

Collective bargaining elections supervised by the National Labor Relations Board up to last week continue to show the trends indicated in *Business Week's* survey of the two-year life of the board (*BW-Jan8'38, p30*), particularly with reference to the conclusions drawn from the business recession period. In the latest 25 elections, employees voting for "no union" have won 8 (beating the A.F.L. 7 times and the C.I.O. once). Independents have won 2, lost 2, tied one. The A.F.L. has won 5, lost 10. And the C.I.O. still is picking its spots with the best sense of timing, winning 9 and losing 2 of the contests it entered.

* * *

A big outfit with big ideals, the International Labor Organization which has headquarters at Geneva and operates regional conferences all over the world, has just summed up its views on 1937. Recalling difficulties met last year in applying the 40-hr. week industry by industry, the I.L.O. concludes that over-all action is more feasible, and announces that the agenda for 1938 will include discussion of more general campaigning for international action. After 18 years of effort, the association remarks that "the I.L.O. stands today as a continual reminder of the futility of trying to stop social change and economic progress."

that reason, developments will be watched closely by business. The open shop has given Los Angeles an edge in bidding for new industries.

Distribution of the city's milk supply is involved in the current battle. Last August, the Beck drive in Los Angeles got a shot in the arm when an agreement was signed by the milk distributors with Beck's American Federation of Labor teamsters and warehousemen.

Inasmuch as the contract involved 5,000 men and $10,000 in monthly dues, the Beck forces were considerably encouraged. At the same time, the A.F.L. got the edge in Los Angeles on the Committee for Industrial Organization.

The Question of the Hour

The milk contract expires the end of this month, and what's to be done about a new agreement has become the labor question of the hour in Los Angeles. Beck has been attempting to follow the tactics of Harry Bridges, the C.I.O. longshoremen's leader, by organizing a march inland, but he didn't get far inland before he ran into the farm front with its strong Associated Farmers, Inc., a group which, so far, has apparently been able to think up an answer to everything.

When the truck drivers' union attempted to block the roads to Los Angeles to all but union-driven trucks, the A.F. sprang to the defense of "freedom of the highways," and convoyed its trucks to town; and the blockade broke down.

At the same time, the organization formed the Farmers' Transportation Association to control the distribution of its products (*BW—Jan8'38,p35*).

Incidentally, at one stage in the game, the unions tried to rule all milk "hot" that came from cows eating non-union-hauled hay.

Up against the fighting farmers inland, the Beck forces also face a lot of thoroughly-aroused people in town, a fact which supplies the milk distributors with several extra cards in the poker game they'll play with the drivers the first week in February.

New Groups Spring Up

In addition to the constant, long-time efforts of the Merchants and Manufacturers Association and the Chamber of Commerce, to maintain the open shop, there are several new groups that have sprung up recently in the southern California air which seems to encourage such enterprises.

There's an organization known as The Neutral Thousands (T.N.T.) which claims to have 90,000 Los Angeles housewives signed up as "the forgotten group in the battle between employers and employees." T.N.T. carries on a bombardment of radio programs aimed to make women "conscious of the cost of labor warfare and of their rights as consumers." In another phase of their program, T.N.T. claims to have aided 30 groups of employees to organize independent unions "to protect their own interests against labor racketeers and employer chiselers." Seventy more such groups are reported to be in process of formation under the guidance of the organized housewives. Naturally, the milk driver situation has come in for hot discussion by The Neutral Thousands.

Active also is the militant Southern Californians, Inc., with a "New Declaration of Independence" demanding the right of labor to work and employers to hire—meaning, of course, the maintenance of the open shop at all costs.

The California Farm Bureau Federation has joined the group of organizations which are busy arousing the citizens of Los Angeles to the "peril of unionization."

The bureau's publicity office, headed by S. G. Rubinow, has been shifted from San Francisco and press releases are publicizing the "open road to market" objects of the farmers and are urging the Angelinos to see to it that their end of the road is kept open. Right now that means the farmers want the marketing of milk to be freed from union control.

It Unloads Coal Quickly and Softly

R. E. Wall, a coal dealer of Winston-Salem, North Carolina, has invented an automatic unloader which he claims can put a ton of coal in your basement in less than a minute and without the customary rattling of a tin chute that can be heard four blocks away. Here's how the outfit works. The truck, with a hopper bed, is equipped with a conveyor belt 14 inches wide down the center of the bottom. At the back of the bed it dumps into a detachable chute that has another conveyor belt. Both conveyors are powered off the truck's motor. They run fast enough to unload three tons of coal in two minutes.

The chute can be swung 90 degrees to either side for unloading through coal doors that face on narrow driveways, or it can be pointed up to elevate coal through doors 10 feet off the ground. The device unloads stoker coal most efficiently, but it can also handle lumps up to the size of a man's fist. The experimental outfit was made mostly of discarded automobile gears and parts.

How the Housing Law Will Work

FHA draws up its regulations and is arranging mortgage loans on 27 projects to cost $26,000,000. Life insurance companies are ready with capital.

WASHINGTON (*Business Week Bureau*)—Anticipating enactment this week of the housing bill, springboard of its hope to revive construction, the Federal Housing Administration is ready to go into action. New regulations have been written and will be released as soon as President Roosevelt signs the bill. Life insurance company representatives are discussing plans with FHA to swing big capital into new building.

Work on Rental Units

Large-scale operations to provide rental units as well as houses for sale are a big object. FHA has completed arrangements for insuring mortgage loans on 27 projects to cost $26,000,000, of which $11,000,000 has been laid on the line. This backlog for FHA's program is well scattered. Projects are located in Maryland, Pennsylvania, Indiana, Virginia, Illinois, New York, New Jersey, North Carolina, Texas, Connecticut, Georgia, California, Tennessee, Ohio, Missouri, and Minnesota.

In addition, FHA is considering 38 projects that would cost about $34,000,000. Not all of them will materialize but those finally okayed will probably pan a total of $25,000,000. Most of the large-scale projects will be set up on a limited-dividend basis as it's expected that lending institutions will prefer a return of 4½%, with excess earnings applied to amortization, to going for 5%, which is permitted on properties on which the mortgage does not exceed $200,000.

Insured mortgage funds will be available, however, to operative builders who desire to move into construction of small apartment houses and group dwellings. Fly-by-night organizations will be discouraged, as FHA recognizes that, without close supervision, its efforts to stimulate large-scale construction may degenerate into the mere peddling of its tax-free debentures issued in exchange for foreclosed properties.

Prime mover in attracting investment funds into mass building operations will be one or more national mortgage associations, capitalized at $50,000,000 by the Reconstruction Finance Corp., and empowered to offer 3% tax-free debentures up to 20 times that amount.

Popular support in Congress is responsible for the LaFollette amendment that extends insured financing of individual home construction into the rural field; but before FHA embarks on these perilous waters, it will go into the subject thoroughly with the Farm Credit Administration and Farm Security Administration.

Plan Aid for Modernization

Revival of the modernization credit plan is expected to boost business immediately in structural improvements and repairs, plumbing, heating, and electrical installations, but no paper will be insured that covers the purchase of movables. FHA will guard carefully against the sort of high-pressure selling that caused so much trouble in the modernization program that was permitted to lapse in April, 1937.

The bill amending the National Housing Act of 1934 is intended to further reduce the cost of home ownership and rent and has evolved from three years of experience. For the owner-occupants of single-family dwellings or of apartments accommodating not more than four families, FHA is authorized to insure mortgages on new construction, subject to the following terms:

Coverage: 90% of appraised value up to $6,000, and 80% for valuations between $10,000 and $20,000, the top limit for a single structure. Houses worth between $6,000 and $10,000 will be covered for 90% of the first $6,000, and 80% of the remainder.

Amortization: Not over 20 years, except that until July 1, 1939, this may be stretched to 25 years on houses costing $6,000 or less.

Interest: 5% except in special circumstances, when 6% may be authorized by FHA.

Service charge: Formerly ½% of the mortgage, this has been eliminated.

Change in Computing Premium

Premium: The charge of ½% for insurance of the mortgage is retained but in future will be figured on the unpaid balance instead of face amount. This charge is reduced to ¼% on new houses costing $6,000 or less accepted for insurance before July 1, 1939. The change in method of computing the premium also is applicable to outstanding FHA-insured mortgages with respect to payments falling due after the date of the bill's enactment.

Insurance of mortgages on large-scale projects up to 80% of valuations not

exceeding $5,000,000, heretofore available only to limited dividend corporations, is extended to cooperative societies and private corporations formed to rehabilitate slums or blighted areas, provided these groups accept limitations on their financial structures and rental charges.

The mortgage-insurance system also is made applicable to 80% loans from $16,000 to $200,000 on one or more apartment houses or groups of 10 or more single-family residences.

The bill provides that after July 1, 1939, FHA's mortgage insurance system shall be confined exclusively to new construction (including that started after Jan. 1, 1937, and completed before July 1, 1939) and property previously covered by an FHA mortgage.

Modernization loans will be insured to a maximum of $2,000 for repairs and improvements on residential properties, $10,000 on commercial and industrial properties, and $2,500 for the building of new structures on urban, suburban, and rural property.

1937 Radio Sales

In unit volume the year was second highest. Only 1936 surpassed it.

THE past year was a good one for radio set sales—not as good as 1936, but better in unit volume than any other year.

Such is the summary made by *Radio Retailing*, and reported in its annual Marketing and Sales Statistics issue. Domestic unit sales were 7,631,267, which is only a bit behind the record of a year before, 8,158,290. Dollar volume was $404,457,150 for 1937, compared with $464,007,000 for 1936 and $591,718,000 for 1929.

Domestic home-set sales accounted for the greatest part of the 1937 total, electric consoles, automobile sets, and phono-radio models following in that order. Exports of all kinds came to 668,733 units, compared with 670,800 for 1936.

In one line—tubes and replacement parts—the sales of 1937 brought more money than in 1936, although total sales were lower. Price rises were responsible. Sales of test equipment fell off, and radio battery sales declined.

How much of the decline during the latter part of 1937 is due to the general business recession, and how much to saturation of the market, is impossible of determination. In the latter connection, *Radio Retailing* reports that saturation for the entire United States is 81.99% on a one-radio-per-home basis; highest saturation is in New York, with 98.89% radio homes, Pennsylvania is second, Illinois third, and Nevada most unsaturated.

THE BUSINESS ROUND-UP

1937 Compared with 1936

Business Week's Index of Business Activity +1%

PRODUCTION	%
Steel	+6
Automobiles	+8
Construction:	+9
Residential	+13
Non-Residential	+20
Public works and utilities	−7
Lumber	+1
Electric power	+9
Hard coal	−9
Soft coal	+1
Petroleum	*+16
Oil wells drilled	*+27
Textile mill consumption	
Cotton	+5
Silk	−6
Wool	*−8
Rayon	−12
Cigarettes	+6
Cigars	+3
Factory employm't	+8
Factory payrolls	+19

TRADE	%
Check transactions	+1
N. Y. C.	−5
140 Cities	+7
Carloadings	+5
Grain	+0.3
Livestock	−4
Coal and coke	+1
Forest products	+10
Ore	+36
L. C. L.	+3
Miscellaneous	+6
Machine tool orders	+37
Cement shipments	*+1
Paint, varnish, lacquer sales	*+7
Passenger car sales	*+3
Truck sales	*+1
Household refrigerator sales	*+15
Washing machine sales	*−4
Oil burner shipments	*−3
Retail trade	*+6
Department store sales	+5
Variety sales (5¢—$1)	+3
Rural sales	+6
Life insurance sales	+4

PRICES	%
Wholesale prices	+7
Farm products	+7
Food products	+4
Hides and leather	+10
Textiles	+7
Bldg. materials	+10
Chemicals	+4
Metals	+10
Raw materials	+6
Semi-manufactures	+12
Finished products	+6
Construction costs	+15
Dep't store prices	+7
Cost of living	+4
Food	+4
Housing	+11
Clothing	+4
Fuel and light	−1
Sundries	+2
Stock prices	−0.4
Bond prices	−4
Farm income	+7
Dividends	+10

*Estimated

Sweeten Employees

Oakland, Calif., firm wins better understanding by industrial relations drive.

An effective industrial relations campaign which is increasing the efficiency of employees in the Pacific Coast plant of the Paraffine Companies, Inc., at Oakland, Calif., moved into its final stages last week.

Reviewing results so far, W. H. Lowe, president of the company, sees the effort, which got under way in October, as already gaining many of its major objects. These included: (1) Eliminating misunderstanding by employees of Pabco's labor and business policies. (2) To improve the employees' efficiency and thus offset increased hourly wage rates with greater production. (Employers of similar types of union labor in the San Francisco-Oakland area were said to be experiencing decreases in the output of their workers.)

Making Things Clear

To eliminate misunderstanding, Pabco officials devised a contest open to all workers in its manufacturing plant and their families, with prizes for the contestants who succeeded in showing the clearest understanding of the point covered.

One arresting picture, and one important fact on Pabco products and their manufacture are being issued to contestants weekly for 40 weeks. Accompanying these is a questionnaire with four queries of the true-false type, and one calling for a 25-word statement covering the facts presented in the week's "issue."

Two sets of prizes have been offered, one for an employee, and another for a member of an employee's family. First prize is $100 cash or $125 in Pabco products. Other prizes run in proportion down to fifth prize ($10 or $15 in merchandise). There are 100 "consolation awards" of $1 each.

Where Firm's Dollar Goes

One week's "issue" contained a breakdown showing "where the Pabco dollar goes" and explaining that, in 1936, 48½¢ went for raw materials, 25¢ for wages, 15½¢ for miscellaneous operation, 3¢ for taxes, 4½¢ to 3,812 stockholders, and 3½¢ for expansion and development.

Another "issue" explained how a portion of the profits are "plowed back" in the form of experiments, research, improvements, new machinery, and expansion.

The contest was devised by Mr. Lowe, and copy for it was prepared by Henry W. von Morpurgo, who is head of the company's public relations department.

Mexico's New Tariff Rates

A new decree establishes high emergency tariffs on nearly one-third of Mexico's imports. But the new rates are only temporary—through April—and their purpose is to keep foreign trade in balance during a period when exports are normally low. In this way, the temporary barrier is expected to help maintain the exchange rate of the peso, which has been under pressure though it has been kept pegged at the rate of 3.60 to the dollar (27.8¢). After May 1, the tariffs will be lowered but not to the old rates.

Here is a sample list of the old, emergency, and future rates of duty on items of special importance to manufacturers in the United States who sell in Mexico:

Item	*Old Rate* (Pesos per kilogram)	*Emergency Rate (Jan. 18-Apr. 30)* (Pesos per kilogram)	*New Rate (After May 1)* (Pesos per kilogram)	*New Rate ($ per lb.)*	*% Increase New Rate Compared With Old Rate*
Machinery & Apparatus					
Up to 50,000 kilos	.03	.07	.06	$0.0076	100
Above 50,000 kilos	.02	.05	.04	0.0050	100
Above 250,000 kilos	.015	.04	.03	0.0038	100
Electric dry cells	.80	1.40	1.25	0.1575	56
Motive machinery					
To 100 kilos	.08	.15	.10	0.0126	25
Above 100 kilos	.07	.14	.09	0.0113	29
Cranes	.04	.07	.06	0.0076	50
Business Machines					
Calculating	1.00	3.00	2.00	0.2560	100
Typewriters	.60	2.00	1.20	0.1512	100
Cash registers	.60	2.00	1.20	0.1512	100
Radio Tubes & Apparatus					
Transmitting	.40	1.00	.80	0.1008	100
Receiving (no cabinet)	.40	2.00	1.00	0.1260	150
Tubes	.05	.30	.15	0.0189	200
Phonograph Apparatus	1.20	3.00	2.50	0.3190	108
Metal Manufactures					
Manufactures of copper	2.00	4.00	2.40	0.3024	20
Barbed wire	.05	.10	.06	......	20
Iron and steel cable	.15	.30	.20	0.0252	33
Tinplate sheets	.07	.15	.10	0.0126	43
Iron or steel sheets					
Less than 3.4 mm	.035	.07	.06	0.0076	71
More than 3.4 mm	.08	.12	.10	0.0126	25
Tubes & Fittings (iron or steel)					
To 7 cm. diameter	.06	.12	.09	0.0113	50
More than 14 cm. diameter	.02	.06	.04	0.0050	100
Locks	1.00	3.00	1.50	0.1890	50
Containers					
Tin	.12	.25	.18	0.0227	50
Iron or steel drums	.08	.15	.10	0.0126	25
Refrigerators					
Up to 200 kilos	.50	1.00	.75	0.0945	50
Above 200 kilos	.45	1.00	.60	0.0756	33
Iron & Steel Furniture					
To 10 kilos	.80	2.00	1.00	0.1260	25
Insulated Wire & Cables	.30	.60	.40	0.0504	33
Spinning Machines					
Up to 100 kilos	.08	.20	.15	0.0189	87½
Sewing Machines	.10	.20	.15	0.0189	50
Hand Tools (all kinds)	.06	.15	.10	0.0126	67
Meters					
Electric	.60	1.50	1.00	0.1260	67
Automatic gauges	.05	.20	.15	0.0189	200
Vacuum Cleaners	1.50	4.00	3.00	0.3780	100
Paper					
"Kraft"	.05	.20	.10	0.0126	100
White paper	.40	.50	.45	0.0567	12½
Cigarette paper	.80	1.10	1.00	0.1260	25
Sensitized (photo)	.50	1.00	.80	0.1008	60
Bound books	.10	.20	.15	0.0189	50
Chemicals					
Sodium and potassium carbonates	.01	.03	.015	0.0019	30
Sodium and potassium nitrate	.10	.30	.15	0.0189	50
Medicinals					
In capsules	1.50	3.00	2.00	0.2560	33
Pharmaceuticals and drugs	1.00	3.00	2.00	0.2560	100
Paints & Dyes					
Colors from coal tar	.25	.50	.30	0.0378	20
Varnishes and paints	.60	1.00	.75	0.0945	25
Sulphonated oils	.15	.25	.18	0.0227	20
Vegetable tanning extracts	.08	.15	.10	0.0126	25
Films					
Blank—cinematographic	.50	1.50	.75	0.0945	50
Blank—photographic	1.00	3.00	2.00	0.2560	100
Construction lumber	.40*	1.00	.50	0.0630	25
Lubricating oils	.09	.18	.12	0.0151	33
Crude rubber	.30	.50	.40	0.0504	33
Textiles					
Oilcloth	1.70	4.00	2.00	0.2520	18
Rayon (to 50 grams per sq. m.)	17.00	30.00	20.00	2.5200	18
Rayon velveteen	10.00	20.00	15.00	1.8900	50
Automobiles					
Passenger cars					
4 cylinders (each)	180.00	300.00	250.00	31.5000	39
4-6 cylinders (each)	200.00	700.00	600.00	75.6000	200
6-8 cylinders (each)	300.00	700.00	600.00	75.6000	100
More than 8 cyl. (each)	1,000.00	2,500.00	2,000.00	252.0000	100
Trucks (each)	150.00	350.00	300.00	37.8000	100

* Per 100 kilos.

Two Mexican Tariffs

Emergency schedule will be followed by another one, with lower rates.

MEXICO has increased its tariffs, and United States exporters are going to suffer, though the effect on our business with Mexico is not likely to be as drastic as first reports indicated.

In a decree made public Jan. 19, the Mexican government announced two new sets of import duties. The first, and higher, set of rates will be effective between Jan. 18 and Apr. 30. The second tariff schedule will become effective May 1, and will be considerably lower than the temporary emergency rates but higher than the old tariff schedule which was in effect until Jan. 17 (see table).

Back of Mexico's Move

Mexican authorities explain that the tariff increases are necessary in order to prevent the usual heavy imports during the first third of the year at a time when exports are slack. The government's expenditures on public works and on socialization of agriculture have admittedly been very heavy of late, and there has been no surplus of funds with which to support the peso during the usual slack export season. Mexico is frankly imposing prohibitive tariffs for the next three months on the probably sound assumption that the country can readily live for that period on its current stocks. The rates effective on May 1 are enough higher than the old rates to prevent a flood of imports when emergency rates are removed.

There is no discrimination in the new schedules—all tariffs being applied equally to every country. Nor are the new permanent rates which become effective May 1 excessive, as tariffs go. Mexico has had such low import duties that even 100% increases do not make rates as high as in many other countries.

Will Aid U.S. Branch Plants

While any tariff increases are disconcerting to both United States business and Washington, especially when this country is trying to loosen world trade barriers, the present boost will aid those United States manufacturers who have built branch plants in Mexico. This includes both Ford and General Motors, several of the tire companies, some electrical equipment and can manufacturers, and producers of electric dry cells, medical preparations, and paper. There is still a tax on the export of profits from Mexico, but the number of companies which have established branch plants in Mexico in the last few years indicates that many have found it profitable, even with the restrictions and taxes, to manufacture there for local distribution.

Joint Food Policies Planned

First joint meeting of all divisions of food industry emphasizes need for working together on operating practices and price controls.

CANNERS, brokers, wholesalers, and retailers, attending in record numbers the annual Food Week conventions in Chicago, were ready this week to accept President Roosevelt's still undefined plans for industrial cooperation. As a matter of fact, they weren't waiting for that nebulous program to take shape: stabilization of the trade through agreement on operating practices and price controls was the keynote emphasized at the individual association meetings, at the joint sessions which were scheduled for the first time in history, and at the innumerable private conferences between buyer, seller, and intermediary held in innumerable hotel rooms.

Discuss Canners' Price Controls

Recognition of the mutuality of interest was particularly evident in four developments:

(1) In the discussion before the National Food Brokers Association of the price controls exercised by Coast canners to move the heavy pack of California peaches at profitable levels for grower and distributor (*BW—Jan8'38,p28*).

(2) In the industry-wide session devoted to public relations at which William J. Cameron of the Ford Motor Co. was the principal speaker.

(3) In the concerted effort by canners to enlist the cooperation of the National American Wholesale Grocers Association in the use of descriptive labels.

(4) In the efforts of the National Canners Association to tighten up on the regulation of future sales contracts and to devise standard enforcement techniques which wolud work a minimum of hardship on both buyer and seller. Rules and regulations governing future sales were originally adopted after an exhaustive cooperative study a year ago, but they proved unequal to the strain placed upon them by the sharp drop in commodity prices.

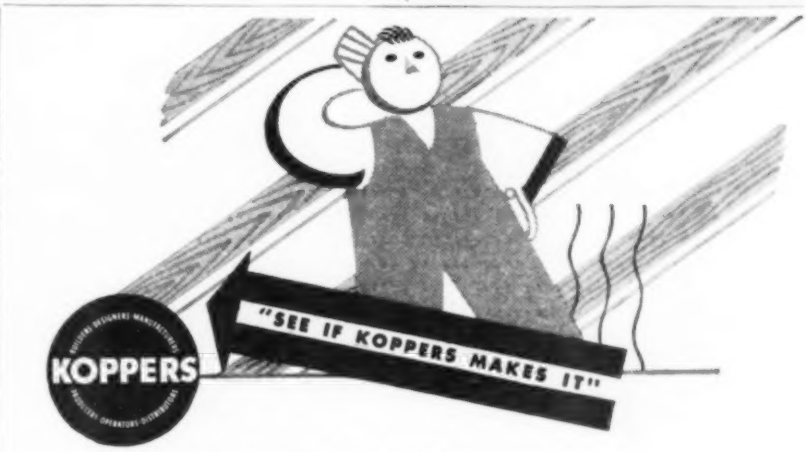
Price Problems Cited

Numerous instances were reported of buyers' refusing to accept delivery at future contract prices in the face of low spot quotations. Refinement of the regulations (particularly with respect to *pro rata* deliveries in case of reduced packs, and to arbitration of disputed contracts) is expected to ease difficulties.

An increasing number of canners have fallen into line in the descriptive labeling program. The California Packing Corp., with its Del Monte brands, was the biggest convert of the past year. The National Canners Association is particularly interested in seeing wholesalers and private brand distributors (who account for 50% of canned goods sales) adopt a similar label program. For the canners realize that the threat of government-dictated A-B-C grades is not yet laid, despite the progress which has been made in satisfying the consumer with labels that simply describe the quality features of a brand.

The tremendous development in the production and distribution of quick-frozen foods during the past year is a prime cause of concern of the canning industry. Led by such firms as the Snider Packing Corp. and Dulany & Son, several dozen canners have started quick-freezing operations of their own, experimenting first with various fruits. The inability of jobbers and retailers to handle such lines, because of a lack of the necessary low-temperature refrigerating equipment, is the biggest handicap to the further invasion of this field by the canners.

Brokers in attendance at their convention sessions were patently delighted



at the way the Federal Trade Commission came through with a cease-and-desist order issued against the Great Atlantic & Pacific Tea Co. in time for celebration at the meeting. The rigid interpretation accorded the brokerage section of the Robinson-Patman law by the commission thus far has been a considerable source of satisfaction to the brokers, particularly in view of the fact that the quantity discount sections of the law have been virtually nullified by dismissal of the actions against Montgomery Ward and Kraft Phenix.

Carbon Black Prices

Low quotations continue as a result of accumulated stocks and more competition.

ADD to industrial producers' headaches for 1938: the carbon black situation. The essential elements of the problem are found in the business recession which hit the principal users, a move by independents to expand and cut into the market largely controlled by a set of older firms, and a price war which came about as the result of these trends.

Carbon black is used in a variety of ways, with about two-thirds of the total American production sold in the domestic market and the rest exported. Biggest user is the tire industry, which takes 89% of the supply; another 6% goes into ink manufacture, paint takes 2%, and miscellaneous items account for the remaining 3%. Obviously, when the rubber tire business goes sour, the carbon black business is none too sweet.

Sharp Drop in Prices

However, the decline in the last part of 1937 in tire sales wasn't as steep as the drop in carbon black prices. A carlot price which held pretty steady throughout 1936 and half-way through 1937 at 4¢ per lb. is now down to about 2¼¢ per lb.—nearly cut in half.

The latest complete figures on the industry are for 1936, when about 60 million lb. more of carbon black were produced than in the preceding year, with a total of 411 million lb. This came from 54 plants, some 80% of which are in the Texas Panhandle.

Entering 1937, the same 54 plants were working, as they had been for two years previously. But the present picture is for more carbon black factories, in more places—such as Oklahoma and Wyoming—run by independent producers who are considering entering the field or are expanding their facilities.

All of which makes it look as if the price range would not go up. Contracts for the present year are being signed at the 2¼¢ price, and accumulated stocks plus the general decline in markets make for serious pondering on the part of leaders in the industry.

Business Abroad

France, the Far East, and Washington still keep world business in state of unsettlement. Hull offers Britain additional list of items for trade bargaining; Mexico ups its tariffs. German executives admit there is no end to present government control over business.

THE WORLD TRADE OUTLOOK failed to improve this week, largely because of the growing worry over France, the conviction that friction between business and the government in the United States has not been eased, and the prospect that tensions are growing in the Far East.

Commodity and stock markets were irregular. The flow of capital to London continued, with the franc taking another nose dive in the middle of the week. The British are showing a new interest in gilt-edged shares and, following the optimistic year-end reports which continue to be released, in speculative shares.

French conditions cause growing alarm as the conviction spreads that the battle between capital and labor will not be ended by anything short of strong dictatorial control which parliamentary government is not likely to provide.

In the face of the fear that France will be forced soon to resort to an embargo of capital exports with the restriction that move would place on the movement of foreign trade, Secretary Hull announced a new supplemental list of items on which the United States is prepared to bargain for tariff reductions with the British when the trade talks begin early in February.

At the same time, Mexico boosted tariffs on practically all major imports to prohibitive levels for a four-month period ending May 1, but established new tariff rates to be operative after May 1 at levels considerably higher than the rates which were in effect until recently (page 40). Purpose of the emergency rates is to keep out imports during a period of low exports and so prevent unusual pressure on the peso. The new rates apply to all imports, but because the United States supplies more than 70% of Mexico's imports in a normal year, the first impression was that they were discriminatory.

Cooperatives doing an international business attracted attention this week when the International Cooperative Agency, Ltd., was created with headquarters in London. Purpose is to provide a clearing house for cooperative wholesale societies in individual countries which wish to buy foreign goods for distribution through their outlets at home. Heretofore they have bought through shipping agencies, or sporadic contact with colleagues in other countries. The new organization will provide a permanent headquarters and staff, financed by contributions from members representing wholesale cooperatives in England, France, the Netherlands, Austria, Sweden, Czechoslovakia, Switzerland, Poland, Estonia, Scotland, Finland, Belgium, and Palestine.

British retail cooperatives announced last week that they increased their membership by 250,000 last year, and transacted $1,250,000,000 worth of business, compared with $1,100,000,000 in 1936.

United States trade activity in the Mediterranean got a new lease of life this week when the American Export Line came to terms with the Maritime Commission and received the promise of an annual subsidy of $1,200,000 for the next year, provided only that the company build 10 new vessels at a cost of about $20,000,000 within that time, four of them to be started at once.

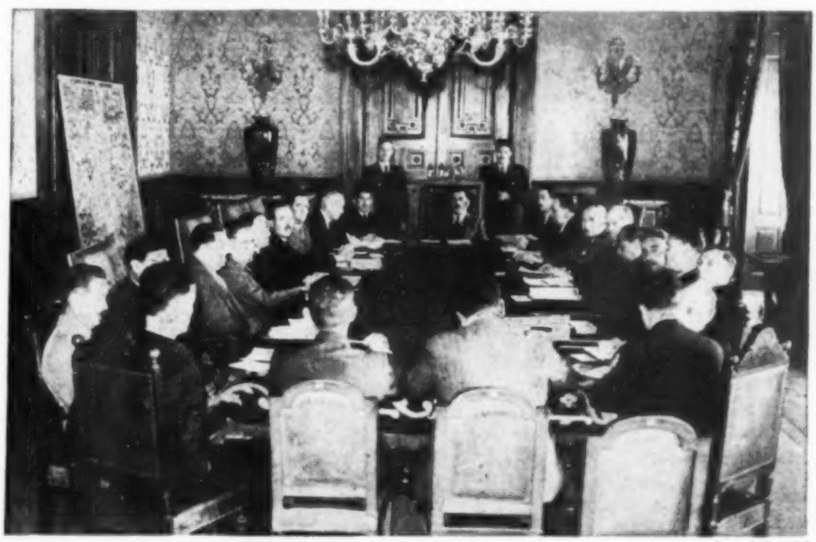
The Krupp Works, Germany's largest manufacturing company and once more reputedly the world's largest armament company, has just reported that for the business year ended last September, its profits exceeded 16,226,000 marks, compared with 14,395,000 in 1936.

Furthermore, the number of employees increased from 98,341 in 1936 to 108,765 in 1937. Taxes paid the government last year amounted to 47,293,000 marks, compared with 37,628,000 the previous year. Exports in 1937 were nearly 20% ahead of 1936, large contracts having been made in British India, Italy, Switzerland, Argentina, Turkey, China, Yugoslavia, and South Africa.

Japan has not yet cancelled its plans to play host to the next Olympic Games (1940), but sent word this week to Thomas J. Watson, president of the International Chamber of Commerce, that it would like to defer until 1941 the invitation which it had previously extended to hold the 1939 chamber meeting in Tokyo.

In China, Japan is responsible for two developments of significance to foreign business. In the Shanghai and North China territories now controlled by Japan, import duties were drastically lowered on items principally supplied by the Japanese. In Manchukuo, gold production is being expanded rapidly. Output in 1941, according to the "plan" laid down by Tokyo, will be worth about $25,000,000.

As Mexican Government Announced New Tariffs



Ameri-Candid

THE MEXICAN CABINET and its advisers meet in conference in the National Palace, seat of government in Mexico City. President Cardenas presides at the head of the table. From the cabinet on January 19 came the news of drastic upward revision of Mexican tariff barriers. A temporary schedule will be effective until April 30, to be followed by one more moderate but considerably higher than the rates previous to the announcement. (See story on page 40.)

Canada

Large exports boost automobile production. Radio licenses are increased and commercial broadcasts extended by CBC.

OTTAWA—Canadian business has shown some signs of at least temporary improvement during the last week. The coast-to-coast survey of the Canadian Credit Men's Association indicates betterment in domestic trade, although many lines continue spotty. As in the United States, carloadings in Canada increased slightly for the latest week but were still under the corresponding week of last year. Plant extensions and equipment orders are helping the situation. The automobile industry of western Ontario will take on several hundred more men soon.

Canadian chartered banks, in annual reports now being issued, find the situation in the Dominion generally sound and with prospects for the year good but depending largely on conditions in the United States. Activity in the heavy industries, and large export trade, are noted as features of the year, with mining an increasingly important factor.

Automobile production for December, as shown by figures now available, was importantly affected by extension in export sales. While units of passenger cars produced for domestic sale were fewer in December than in November, the production for export rose from 3,990 units to 8,740. Production of motor trucks rose from 2,781 to 6,268. Altogether the industry was 25% better than in November, and 2% above the previous December.

Flour milling is expected to feel increased competition from Australian flour in the United Kingdom market, most important to Canadian millers. British millers are using more of the cheaper Australian flour in their mixture. The effect is not yet visible in trade returns.

Japanese penetration of British Columbia industry is giving increasing concern in the coast province. From political quarters has now come a demand for a "census of all Japanese in British Columbia before it is too late because of the serious Oriental penetration of industrial life." Japanese interests are established particularly in the fishing and lumbering industries.

Canadian Broadcasting Corp. has persuaded the government to have parliament increase the annual license fee of radio users from $2 to $2.50, and to impose it for each instrument owned. At present, the single lower fee covers all radios operated by the Canadian listener in house or automobile. The increase will give CBC an additional $650,000, making its revenue from licenses approximately $2,000,000. It is now reported to be earning about $500,000 a year from commercial broadcasting. The system began operations in 1933 with $1,000,000 from licenses.

Increased commercial broadcasting has revised the protest of advertising interests against competition from a government institution. A growing number of sponsored United States programs fed to the Canadian network is a point in the protest. Several popular commercials now come from the American chains, paying their way on the Canadian network. Dominion advertising men claim the government is taking money from their pockets. CBC claims that by ensuring the success of public service broadcasting through increased revenues it is protecting Canadian advertising channels from greater competition that would result should broadcasting fall back into private hands. This does not satisfy publishers who find advertising allocations cut and who claim the increasing competition from CBC will cost Toronto periodicals alone $200,000 this year. Some are calling for a showdown, insisting that the government take the national broadcasting system out of the advertising field, finance it some other way.

Other commercial activities of government are vigorously protested by private interests appearing before the Rowell Commission investigating dominion and provincial economic matters. This week the Canadian Electrical Association, represented by important lawyers, goes after Ontario's famous publicly-owned and wealthy hydro electric system. The complaint is that the tax-freedom of this huge enterprise works grave injury to the large power companies of Quebec which pay federal, provincial, and municipal taxes. It is an old grievance, which has interested power interests in the United States.

The issue as to the extent government should invade business is rapidly returning to prominence in the Canadian political arena, as it is in the United States.

Canadian bankers warned the same commission that the chartered banks might withdraw from Alberta should taxation legislation already passed by that province be upheld in the courts, where its constitutionality is now being tested. The legislation increases the taxes on banks, and places them under provincial license.

German Business Men Visit U.S.

PHOTOGRAPHED in the smoking room of the *S.S. Bremen* as they arrived in New York last week was the group of 26 German business men shown above. German observers of American business methods have been frequent in recent years, but this is the largest group sent by one firm. The men represent the Union for Metal Industry, of Froedenberg in the Ruhr district, and comprise a wide range of employees from department heads down to apprentices. They will visit leading business concerns in New York, Niagara Falls, Pittsburgh, Washington, and Philadelphia before returning on the *Europa* February 3rd.

Soviet Union

Grain acreage will be reduced in 1938, but cultivation will be intensified. Mechanization of collective farms will be pushed.

MOSCOW (*Cable*)—1938 will be a record agricultural year for the Soviet Union, according to plans revealed this week. The tremendous yearly increase

in the mechanization of farming has brought the country to the saturation point in grain acreage, which this year will be reduced by 7,500,000 acres. Increased harvest achieved by more intense cultivation, higher efficiency, and greater mechanization will make up the difference.

While the total sown area will increase by 750,000 acres, acreage planted in grain, flax, and sugar beets will be reduced.

Collectivization is here to stay. More than a million raw peasants have been trained to operate agricultural machines; 15,000,000 of the 18,500,000 peasant households have been working collectively for more than five years, while only 7% of all peasant households are outside the collective fold.

Close to 6,000 machine tractor stations, to which 500 more will be added this year, serve nearly a quarter of a million collective farms. 25,000 new tractors, mostly of the powerful caterpillar and diesel engine type, will bring the total operating by the end of the year close to 400,000.

France

Political and economic outlook is not bright, but tax revenues are up.

PARIS (*Wireless*)—France's very uncertain political future was mirrored in the wild fluctuations of the franc this week. With only intermittent support from the government's official exchange control fund, the franc early in the week sank to the lows of a few weeks ago. Few people in Paris expect that the present government will last long, or that more serious conflicts between employers and workers can be avoided, so the future of the franc is at best gloomy. Exchange control will almost surely be tried before long.

The tourist outlook in 1938 is affected by the prospect that the country will not be calm. Last year, more than 900,000 foreigners visited France. This was more than double the number for 1936. A wavering franc, and political and labor disorders might cut last year's total in half.

Import quotas for the first quarter of this year, when they were announced, revealed that they were the same as the last quarter of 1937 with a few exceptions, most important of which was the reduction in the quota on radio tubes.

Foreign trade is expanding, but import gains are outstripping the increases in exports. Here are foreign trade figures for the first 11 months of the last three years compared:

	1935	1936	1937
		(Millions of francs)	
Imports	19,005	22,375	37,777
Exports	14,205	13,840	21,589
Deficit ...	4,800	8,535	16,188

The United States and Great Britain were the largest suppliers to France last year. Biggest markets for French

LARGE—AND PROFITABLE—After dire predictions in the spring that the United States was likely to wind up 1937 with an unfavorable trade balance, exports climbed while imports slumped—and the year ended with a trade balance in our favor of $250,000,000, according to estimates now released by Washington.

Dutch Storekeepers Merchandise the Blessed Event

European

JUST AS SHOPS in an American college town frequently tie their window displays to the coming week's football game, so stores throughout Holland have decorated their windows in anticipation of the confinement of Princess Juliana, successor to the throne. Storks, as shown above, are a favorite attention-getter.

goods were Belgium and Great Britain.

Government revenues, despite declining business activity, are up in France, though this will not continue long unless the present disturbances are terminated. Total tax revenue for the government in 1937 amounted to 37,839,000,000 francs, exceeding 1936 by 19%. Income taxes amounted to 6,814,000,000 francs, an increase of 19%, while indirect tax yields were 15% higher.

Total tax revenue for December amounted to 3,898,000,000 francs, which was a gain of 20% over 1936. Income taxes increased 23%.

The public is not deceived by the overwhelming vote of confidence which the new Chautemps government received in parliament. It knows that the fundamental problem—the struggle between employers and labor—will be solved outside parliament. The question is whether or not it can be accomplished without a dictatorship.

Few analytical observers believe that France will accept either the German kind of fascist dictatorship, or communism. Most of them believe that France will ultimately—probably when faced with a national emergency—accept some form of "mobilized" economy with both capital and labor making some concessions. But there is an important minority who are less optimistic, and fear that France will be plunged into a bloody civil struggle before Left and Right extremists are compelled to yield to a moderate majority.

Great Britain

Inherent business optimism is dampened by foreign developments. No loan for Japan is likely.

LONDON (*Cable*)—Coal owners are busy preparing a powerful attack on the government's scheme for the purchase of coal mining royalties, and it is felt now that there is danger of a first class split among government leaders unless secret negotiations produce a compromise.

The general tone of business is good and has been favorably influenced by the latest steel figures from the United States. Even people experiencing the normal January quietness have indications that the outlook for new business in the next three or four weeks is good.

The effect of profit reports by the big five banks, and the chairmen's optimistic speeches have acted as a tonic on business. Great weight is attached to the views of leading bankers because they have their fingers on the whole range of business activity. Particular importance is attached to the reference to full order books in the engineering industry.

There is evidence that a large volume of money is still seeking employment, hence the special demand for government bonds and other investment stocks. That experts take a favorable view of the financial situation is shown in this week's announcement of new loans for Hornsey and Bristol. A long list of municipal issues is waiting. There is also a new call for speculative shares.

Japan is realizing that a new state loan is impracticable and is trying to obtain additional credits in Europe behind the scenes with private commercial companies and governments. Representatives are now negotiating in London, but there is little prospect that London will provide capital to finance the war, even indirectly.

London anticipates new uncertainties in the French internal political and business situation.

Germany

Business admits that regimentation has come to stay in the Reich. Opel makes good export record.

BERLIN (*Cable*)—Planning and regimentation are bound to become a permanent feature of German economic life. This is the inference drawn by dismayed business leaders here from Colonel Loeb's (Goering's right hand man) statement on the Four-Year Plan, which he announced this week is merely the first link in a succession of "plans."

The active 1937 trade balance of 443,000,000 marks, though smaller than the 550,000,000 balance in 1936, was nevertheless instrumental in reducing Germany's clearing indebtedness to less than 200,000,000 marks by the end of November. The clearing debt with Holland has been wiped out entirely, and the debt to Yugoslavia has been halved. A further reduction of the latter is likely to result from the revised trade agreement signed during the Yukoslav premier's Berlin visit.

Opel, the General Motors operating company in the Reich, made a spectacular record with its export business last year. Figures just revealed show that exports jumped from a total of 15,700 cars in 1936 to 32,600 cars last year.

Retail trade in Germany increased 14% in November, compared with the same month in 1936, with textiles making the largest gains. A comparison with a 3% retail gain in October brings to light the new hoarding campaign which is under way here because of the fear that a shortage of raw materials will mean the use of a greater proportion of substitute fibers in clothing made in 1938.

Money and the Markets

Roosevelt's price talk jolts stocks. He urges stockholders' sacrifice in hard times, but will they be compensated later? Big Steel, taking no action on its common dividend, is a case in point.

PRESIDENT ROOSEVELT offers little solace to the long-suffering stockholder. When he declared that wages must not be reduced, he gave the stock market the worst jolt it has had in weeks. His announcement came after the close of the market Tuesday afternoon; the response was a wide break in stock prices.

The President's philosophy is that, when times are tough, corporate management should forget profits, devoting itself to maintaining wages and earning fixed charges. The natural corollary would be that the common stockholder should share very liberally as soon as conditions improved. But there is no certainty that such a result will follow, even with an undistributed earnings tax to drive out the dividends.

Story of "Big Steel"

Take the case of United States Steel. Last year it cleared up the remainder of depression-born accumulations of dividends on its preferred stock. While it earned the equivalent of more than $8 a share on its common, it paid out only $1 a share at the end of the year. Consideration of another dividend was due Tuesday, but business has gone sour and the directors, while maintaining the preferred dividend, couldn't see their way clear to authorize anything for the common stock.

New N.A.M. President

Keystone

ELECTION of officers of the National Association of Manufacturers this week saw Charles R. Hook, above, (American Rolling Mill) stepping into the presidency. Retiring President William B. Warner (McCall Corp.) moved up to board chairman, and retiring Chairman Colby M. Chester (General Foods) became chairman of the executive committee.

As a matter of fact, the Steel Corp. paid about $5,000,000 in surtax to Uncle Sam in 1937 for the privilege of retaining about $27,000,000 in the business. Out of total net earnings of nearly $100,000,000, the corporation paid a little more than 67% in dividends. It set up a reserve of $5,000,000 against taxes on undistributed earnings and retained $27,681,905.

Big Steel's failure to act on common dividends (despite the fact that it was $4,000,000 in the black in the fourth quarter, with operations only a little over 41%) is symptomatic of what is in store for stockholders in many lines. Conservatism dictates hoarding of cash, at least until later in the year. Owens Illinois Glass, Julius Kayser, Nash-Kelvinator, Continental Can, Atlas Plywood, Horn & Hardart, and Melville Shoe Corp., since the first of the year have reduced dividends; U. S. Steel, Alleghany Steel, American Water Works & Electric, and A. Hollander & Son have taken no action on common payments.

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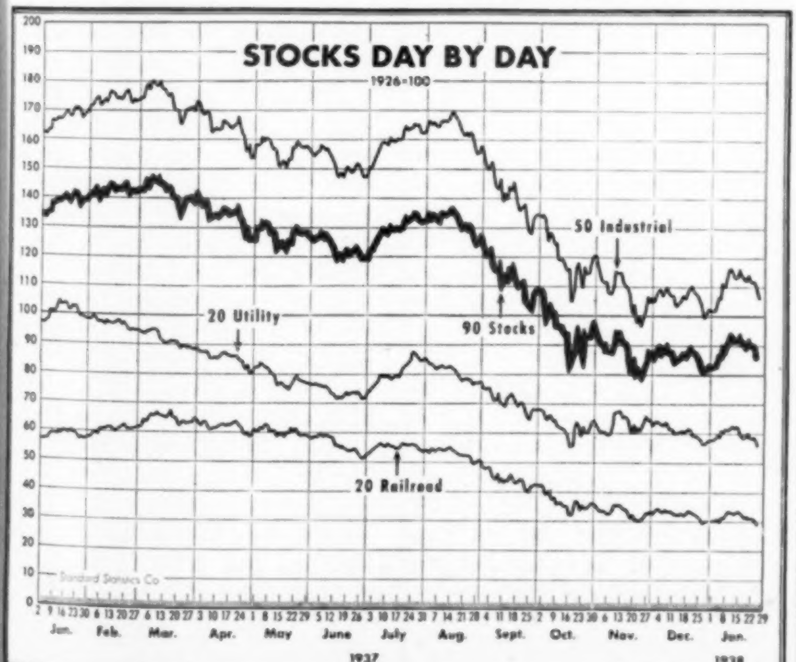
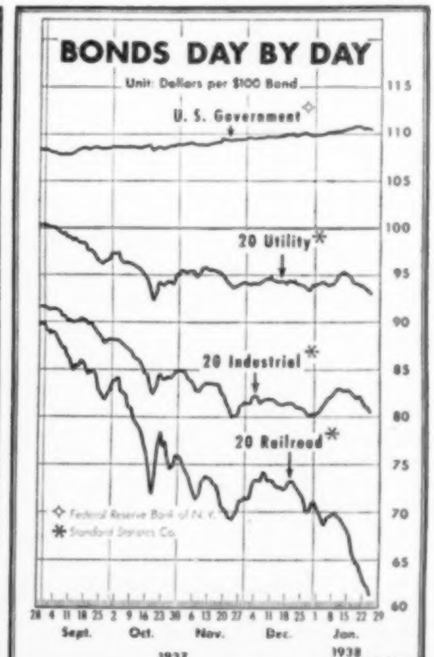
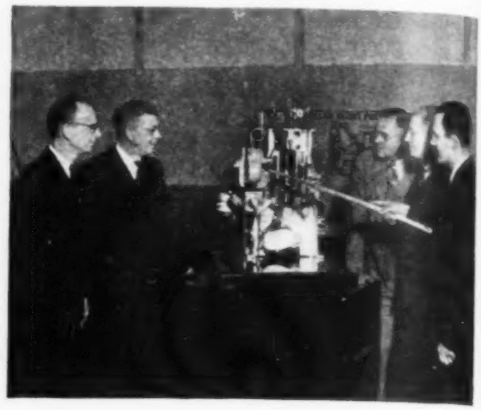
Thinner—Short selling is supposed to add volume to a stock market. That's traditional theory. When a man sells short, he adds to the volume of stock coming onto the market for sale. And, because he has to buy back, he adds to the volume of purchases that will be made. The new regulation of the Securities & Exchange Commission, prohibiting sales of short stock except at prices higher than the last previous sale, will take a lot of "umph" out of the market—"umph" meaning spring, or cushion, or action and reaction.

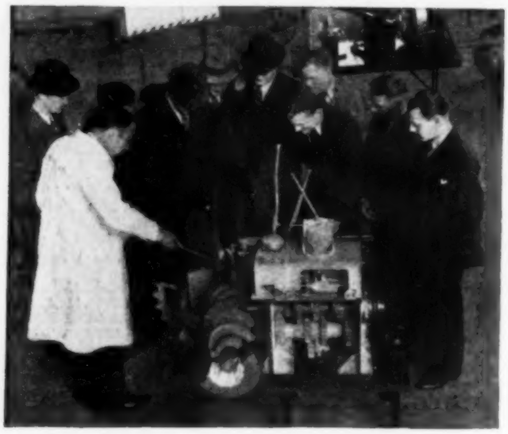
Perhaps that is what the SEC desires. The statistics compiled by SEC analysts





Caterpillar Sends Out Road Shows to Help Distributors' Selling





TYPICAL of the ever-increasing help which manufacturers are giving to dealers and distributors is the motorized educational caravan which Caterpillar Tractor Co. now has at work. Early this month the modern vans shown above at the left set out from the company's plant at Peoria, Ill. Traveling separately, they are visiting Caterpillar's distributors throughout the country, putting on educational shows designed to sell both the distributor and his prospective customers. Each van carries such display equipment as motion picture projectors and film, working models, and cut-away exhibits like the one being demonstrated in the picture at the left. In the picture above, the inner workings of a 4-cylinder diesel are examined by Don Sherwin, vice-president in charge of sales; C. O. Wold, vice-president in charge of road machinery sales; E. R. Galvin, general sales manager; A. T. Brown, executive vice-president; and H. R. Murphy, manager of the sales development division. The Caterpillar officials report that distributors are highly enthusiastic about the traveling shows.

all drive home toward a single point—that speculators concentrated their short selling in a few shares (page 13) in order to force down the price level, and so realize profits on the short side. All of which may be true. But what is wanted to make the statistical tale a wee bit more convincing is the tabulation of each day's activity, indicating the extent of short covering. Figures on short sales on balance would be very illuminating.

In any event, it seems a pretty safe bet that the SEC rule will make it extremely difficult to sell stock on a declining market. To put out a big line of short stock, a rising market will be a virtual necessity. If a man wanted to sell 500 shares of a stock, he might be able to offer it at a fixed price and get it. But normally, he would probably have to sell 100 shares at a time, which means that he would need a rising market, or at the very worst, a firm market.

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Mechanics—It will be possible to sell short stock on a declining market, if one catches the market just right. For example, suppose a trader wants to sell 1,000 shares of a stock short, and it is selling at 30. He can sell 100 at 30⅛; then if the stock sells at 30 again, he can get off another hundred at 30⅛. Then, if the stock drops to 29½, he can sell another hundred at 29⅝. So it would be possible—albeit very difficult—to follow the market down.

One dodge would be to use the odd lot dealer. Odd lot transactions on the short side are not subject to the "one-eighth above the last previous sale" rule. (Actually the rule does not say ⅛, but requires that short sales be above the last previous sale; and on most exchanges, the effect is to call for ⅛.)

Any such diversion of trading, if adopted on a large scale, would be a windfall to the odd lot houses. But they may not like it. Ordinarily, short selling is done in full lots. And to the extent that short selling goes on, it fills out and adds "umph" to the market. Eliminate the short selling in full lots, shift it to the odd lot dealer in odd lots, and what happens? The full lot market gets thinner and the odd lot market gets thicker.

To the odd lot dealer, that means just this. He fills orders at prices which are figured at ⅛ above the most recent price on the regular market, but then, to even up, he must make compensating purchases or sales in the full lot market. And if the full lot market is extremely thin, the odd lot dealer will be in serious trouble.

Suppose, for instance, an odd lot house gets orders to sell (which for the odd lot house means orders to buy from the seller) 600 shares of a stock. The odd lot house must go into the market and sell those 600 shares. Suppose the odd lot firm had purchased the 600 shares at 60; and suppose further that the full lot market, when the attempt is made to sell the 600 shares the house has acquired, is very thin; then the house stands to take a husky loss.

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Specialists—The men who keep the books, the specialists, are also worried about the workings of the new rule. There is some question whether they will be able to accept open orders for short sales. Under present rules, an order, as soon as it is entered on the specialist's books, gets priority over all later orders at the same price. But under the new rule, priority will fall out of bed.

Again it's necessary to use conjectural examples. A specialist may have a batch of orders to sell stock at 30, some short and some long. If the stock sells at 30, then he cannot sell any short stock at the same price, and the long stock on his books will get undeserved priority.

Further, specialists get in a real dilemma when they have short stock on

their books to sell at 30 and 30⅛. As soon as the market for the stock hits 30, all the stock the specialists have listed for "30" ought to be sold, but the effect of the SEC rule would be to forbid selling "30" short stock except at 30⅛. The present stock exchange rule gives the "30⅛" stock priority over the "30" stock, as soon as the stock sells at 30⅛. (Under present rules, of course, a stock could not hit 30⅛ until all the "30" stock had been sold.) Moreover, under the new SEC rule, once the stock hits 30⅛, all the short stock for sale at 30⅛ is no dice. So what is the poor specialist to do?

The dilemma and the conflict on rules may compel specialists to consider refusing standing orders to sell stock short. Certainly, the SEC provision would seem to annihilate "priority" selling of stock under the traditional New York Stock Exchange concept.

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Market Reaction—Stocks took the SEC announcement quietly. There was no tremendous heave, which fact was in sharp contrast to the excitement back in 1931 when the Stock Exchange first announced that it would compile short selling statistics. At that time, stocks jumped as shorts rushed to cover.

Incidentally, there was a report—strictly unofficial—that one odd lot house received orders to sell 260 shares of one stock, and that 200 of those shares constituted short sales. That's unusual, and would imply that traders are unnecessarily "beating the gun," since the new rules don't take effect until Feb. 8.

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That Cocoa Muddle—There is probably no market so capable of producing insane situations as that for cocoa. It must be borne in mind that the biggest producer is the African Gold Coast, and on the Gold Coast no whites are allowed to own land. Hence the natives grow most of the cocoa. Moreover, under the native chieftain, they regulate the flow of the beans to market.

Under the simplest of circumstances this situation could be difficult. It usually is. When prices are rising, it is not unusual for producers to fail to deliver on contracts on the excuse that they haven't the beans—while they actually sell to higher bidders. When prices are low, they often get together and refuse to sell to anybody until prices rise.

This latter situation prevails now. Quotations are below 6¢, against 13¢ a year ago. The withholding movement has existed since the beginning of this crop season, Oct. 1. Stocks of cocoa in New York have declined sharply as the manufacturing trade has drawn on warehouse supplies—from a high of nearly 1,400,000 bags they have dipped below 700,000. So stubborn are the Gold Coast producers that they have attempted to get Nigeria to join the holdout; they have undertaken to raise money to finance hard-pressed farmers.

The market, meanwhile, has had a remarkable case of jitters. Fears of a tight spot situation are mingled with qualms over what might happen if the withholding movement were broken—which would flood markets at least temporarily. There is talk, too, of beans rotting in storage, reducing the Gold Coast crop from earlier estimates of about 270,000 tons. There are as many opinions on the market's future trend as there are traders.

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Financial "Ads"—Evidently the country's banks don't take this "recession" too seriously. Either that or they have become accustomed to adversity since 1929.

At any rate, the Financial Advertisers Association, which annually compiles figures on such things, finds that its membership will do more advertising in 1938 than in 1937. This membership, though predominantly in the banking field, covers practically all the financial lines. It is sufficiently large to provide a pretty good cross section. Here are the findings:

More than 50% of members will spend the same amount as last year.

36% will increase their appropriations.

9% will decrease their advertising budgets (but most of these had special appropriations last year for such things as bank openings, anniversaries, etc.).

Advertising of investment services, including "commingled" or "common" trust, probably will be more prominent (*BW—Dec18'37,p51*). Otherwise trends in the services advertised and the media chosen for the job will probably be little changed.

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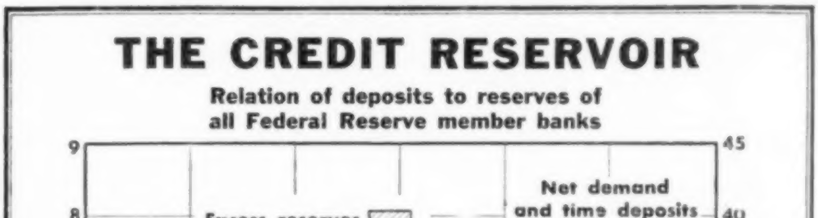
Cheer for Sugar—The refiners of cane sugar in the United States got good news this week. The Treasury Department announced a countervailing duty on imports of sugar from the United Kingdom and Northern Ireland.

It might not appear on the face of it that this means much, because the United States imports of British refined sugar are virtually nil. And it would not mean anything if it weren't for the fact that a trade treaty is under negotiation between the United States and Great Britain.

The importance of the Treasury action is this: It recognizes the fact that England does, in fact, pay an export bounty on refined sugar shipments. The Treasury's step acknowledges the fact that Britain gives the refiner, on every pound of sugar exported, a little more that an exact refund of the duty he paid to import the raw sugar for refining. The Treasury is to compute the amount of the countervailing duty in the light of the amount of the "draw-



back" which Britain now gives the refiner.

When one department of the government takes cognizance of an export bounty, it is logical to presume that others will. Hence the American sugar refiners presume that the State Department, in negotiating the reciprocal treaty with England, will take such notice. What the refiners want is to have the State Department ask Britain to eliminate drawbacks which exceed duties paid on the raws (*BW—Jan8'38,p57*).

United States cane sugar refiners, a dozen years ago, shipped as much as 379,000 tons of sugar into world trade channels. Now their share in the international market has dwindled to approximately 75,000. They feel that they can compete very satisfactorily with British refiners if the export bounty paid the latter is eliminated. Hence they hope that the State Department will ask the British to abandon the bounty in return for some of the favors extended to United Kingdom goods in the new trade treaty.

If American refiners could recover the lost 300,000 tons of exports, it would add about 7% to their present volume of business. That means more than the profit on an added 300,000 tons of sugar. It would utilize idle overhead and appreciably increase profit margins on *all* the sugar handled. It would make work for more laborers in the industry; workers who, incidentally, are getting even higher wages now than they received in 1929. It might do something for stockholders.

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Mr. Morgenthau's Babies—Occasionally this department finds itself referred to in the Editorially Speaking Columns as "the gentleman on the financial run." This is our first opportunity to call attention to the gentleman on the wise-cracking run.

Anyhow, the gentleman on the w-c run has just received a letter from the Treasury Department—and it wasn't from Internal Revenue. Sec. Morgenthau wants to know how his investors became interested in baby bonds. In the style approved by most advertisers, he encloses a questionnaire to aid him in determining his best appeal. And he has the distinct advantage that replies to his questionnaire may be returned under the Treasury Department's franking privilege.

Enclosed also in this letter are a leaflet and a booklet, the better to keep sold the baby bonds that have been sold and to encourage further buying by those who have already proved their thrift.

Mr. Morgenthau takes pardonable pride in pointing out to the gentleman on the w-c run that he has now sold the tidy total of $1,300,000,000 of Uncle Sam's baby bonds.

Business Week Advertisers in This Issue

January 29, 1938

Editorially Speaking—

THE new Admiral of the British Fleet is the Earl of Cork and Orrery, who is redheaded, wears a monocle, and is said to possess the loudest voice in the British navy. How good is the noble lord at hog-calling?

JIMMY JEMAIL, who is the Inquiring Fotographer (this isn't our spelling, don't blame us) for the New York *Daily News*, went to several restaurants the other day and asked people, "What was the most unusual sandwich preparation you were ever asked to prepare?" The answers, so help us, follow:

A ham, smoked salmon, and cream cheese sandwich. A sandwich of tuna fish and sliced egg, the whole sandwich covered with whipped cream. A combination sandwich made of anchovies, cranberry jelly, and whipped cream, on raisin nut bread toasted. A tomato, herring, cottage cheese, and peanut butter sandwich. A three-decker sandwich of sliced chicken, sliced turkey, and sliced breast of guinea hen, with cranberry sauce and coleslaw on the side. (Nothing wrong with that one.) And, lastly, a sandwich of roast beef and Bismarck herring, smothered in sour cream. . . . What! No onion-and-syrup sandwich?

MARI SANDOZ' novel, "Slogum House," dealing with Nebraska frontier life, has been barred from the public libraries of several Nebraska cities, so now we guess we'll get around to reading it.

THE Brightest Thought of the Month has come from the Nazi consul general in New York, attacking the refusal of the leading American book publishers to participate in the 1938 International Congress of Book Publishers in Leipzig. The Americans had cited the enslavement of publishers in Germany, the official burning there of the books of American authors, and the Nazis' advocacy of an international censorship agreement to prevent the issuance of books criticizing the head of any government. Replied the consul: "In Germany we feel that the public, not the publishers, should have the freedom, and in Germany the government is the public."

So the government, being the public, stops the public, which is the government, from reading what the public, which is the government, wants to read but what the government, which is the public, does not want the public, which is the government, to read.

"THE whole problem of monopoly is perhaps overestimated," says Prof. Malcolm P. Sharp, a law professor at the University of Chicago. "The most serious objection to bigness is ethical-psychological-social-political." But what about the fatidical-piscatorial-whimsical-epistemological?

PROBABLY such heavy hyphenation will go on forever. If Voltaire could not kid it out of existence, how can anyone else? Describing the eighteenth-century professor who preached that all is for the best in this best of possible worlds, Voltaire wrote that "Pangloss was professor of metaphysico-theologico-cosmolo-nigology."

"PRESIDENT Honors the Supreme Court at Dinner for 86"—*Headline*. The superpacked court.

BEHIND the professional levity of this page, there are harsh anxieties and nail-biting fears. We've been worried sleepless about the buffalo we bought for $60 from the Biological Survey. A week ago last Tuesday, about 11:40 a.m., we paused for a word of greeting at his corral in the *Business Week* reception room, where he's been serving as mascot—without much enthusiasm for the job. We fed him lump sugar, as usual, and he accepted so lackadaisically that we wondered if he was bilious. The next afternoon (Wednesday) the Gentleman on the Foreign Desk came in and told us it was his turn to walk the buffalo but that the buffalo, after being taken downstairs in a freight elevator, refused to be walked. He was brought back to his corral and promptly lay down, shivering; and we promptly called up the zoo and had them send us a veterinary. After sitting on the buffalo's head and using a thermometer, a stethoscope, and a laryngoscope, he inserted a cystoscope, crawled up it for a tour of inspection, and slid back to report, "Flu."

Well, for two days we tried to treat that buffalo right there, with the aid of nurses and bedpans; but on Friday we gave in and had him hauled to the hospital. And not an hour too soon. He had pretty tough going for nearly a week, and not until yesterday did the doctors finally report him out of danger. He's still in the hospital and won't be back in our reception room for another couple of weeks, probably. We wish to take this occasion to thank our field circulation department, the accounting department, and the editorial staffs of *Transit Journal*, *Electronics*, and *El Automovil Americano* for their lovely flowers.

ANYBODY who picks up Vice-President Garner's hat by mistake will find a big, bold, imperious sign inside its sweat-band: "Like Hell It's Yours! PUT IT BACK!" And we wonder whether the Vice-President himself ever instinctively obeys that brutal command.

BUSINESS WEEK

The Journal of Business News and Interpretation

JANUARY 29, 1938

Winning but Losing

There is such a thing as winning a lawsuit but losing an economic argument. The Administration has won its struggle to defend the Tennessee Valley Authority; at least it has gained a victory in a three-judge United States District Court, and probably the Supreme Court will not reverse the decision. By devious tactics and specious pretext, by feigning a belief that the production of power on the Tennessee River is subordinate to navigation and is not the main reason for the TVA, government lawyers have won their verdict in the courts. But what of the effect of that verdict on investors? What of the effect on the utility industry, which, if given a fair chance, would spend hundreds of millions of dollars for expansion, leading the country back to recovery?

The law that created the Tennessee Valley Authority is Constitutional; so says the court. The TVA officials have not exceeded their authority in competing with the 18 complaining companies; so says the court. "The competition with these complainants is lawful. . . . The complainants have no immunity from lawful competition, even if their business be curtailed or destroyed." So says the court.

Even if their business be destroyed! Eighteen companies, owned by a vast number of investors, may be destroyed by government competition, by low municipal rates resulting from federal subsidies; and yet the companies have no protection when they appeal to the courts, no immunity.

If they have no immunity, who has? Cannot the same weapon of government competition be used, under one or another pretext, against a score of other industries? If these utilities have no immunity from such competition, then other industries have no immunity, whenever it shall suit the government to compete with them in order to win the applause and the votes of a large section of the public. A pretext can always be found; navigation, flood control, police power, public emergency—any of these can serve as a cloak for the real purpose of government in competing with a private industry. And the investors have no immunity, even if their business be destroyed.

But these broader perils are a matter for the future. What of the immediate situation? From competition that curtails their business, the complaining utilities have no immunity. But then the whole country has no immunity from the wider consequences of that competition, from the refusal of investors to provide money for utility expansion, because they fear that what the government has done in the Tennessee Valley, it may do elsewhere.

Originally the TVA was proclaimed to be merely a yardstick, a way of measuring the righteousness of utility rates. But the government's subsidies and accounting methods made this measurement unfair. The TVA is not a genuine yardstick. And yet the government has gone ahead with plans for dividing the country into seven regions, each a TVA, using TVA methods, practicing TVA competition, and doing TVA damage to utilities. Is it conceivable that money will be forthcoming for the necessary expansion of these utilities, unless the governmental threat is softened?

The TVA policy of curtailment and destruction is lawful; so says the court. But unless the Administration modifies it—unless, by a fair purchase price for the utilities, or by other honest means, it gives the investors a reasonably square deal—utility financing all over the country will suffer, and the whole people will have no immunity from the consequences.

After the Oil Case Convictions, What?

Now that 16 companies and 30 of their executives have been convicted in a federal court of violating the anti-trust laws by fixing gasoline prices, what next in anti-trust policy? The defendants pleaded that they were carrying out the purposes of NRA, and that Sec. Ickes, as administrator of the oil code, wrote a letter asking them to do what they were later indicted for doing. But the judge instructed the jury, "The objectives of the NRA code do not justify illegal action, even though government officials knew of and acquiesced in defendants' actions." Naturally the oil men who went along with the Ickes program feel confused. And business as a whole suffers from a similar confusion. Cooperation and price stabilization at one moment, prosecution the next; a Jackson with his thunderings, a Richberg with his cooings. We hope Mr. Roosevelt finally makes up his mind.

Chasing Capital Into Tax-Exempts

The present Administration's tax laws are largely to blame for the business slump, in the considered opinion of two distinguished German economists, Drs. Gerhard Colm and Fritz Lehmann. Formerly economic experts in the German government, they are now a part of the University in Exile—the graduate faculty of the New School for Social Research (New York). Having assembled much data on the effects of the new taxes, they have reached conclusions similar to those expressed in the *Business Week* report to executives on Dec. 11, "What Taxes Are Doing to Business."

Among other things, these economists find that estates between \$100,000 and \$200,000 had 4.6% of tax-exempt securities in 1927, 4.2% in 1931, and 8.9% in 1935; between \$200,000 and \$2,000,000, 7.6% in 1927, 8.1% in 1931, and 16.1% in 1935; \$2,000,000 to \$4,000,000, 8.3% in 1927, 10.4% in 1931, and 26.7% in 1935; more than \$4,000,000, 9.2% in 1927, 15.3% in 1931, and 44% in 1935.

What caused this enormous accumulation of tax-exempts? Turning to the tax laws, we find that under the Revenue Act of 1928, the top surtax rate was 20%, on incomes over \$100,000; under the 1932 law, the rate was 48% on incomes of \$100,000 to \$150,000, rising to a top of 55% on more than \$1,000,000; under the 1936 law, it is 58% on \$100,000 to \$150,000, 72% on \$1,000,000 to \$2,000,000, and 75% on incomes above \$5,000,000.

Thus our tax laws have chased capital into tax-exempt securities, causing a shortage of capital for long-term business expansion.

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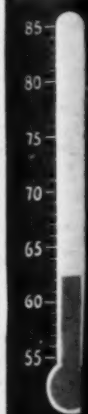

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